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Small Firms And Social Security

Which Business Ads Are Best?

John Naisbitt On The Future Of Franchising

Nation's Business®

The liability insurance crisis is the most serious threat to business today.

Companies risk bankruptcy by paying soaring premiums or going without insurance. The results include lost jobs and higher prices. Experts blame a litigation explosion in which there is a private civil lawsuit for every 15 Americans. Many of those suing count on a trend of fat awards that assume wrongdoing by business. Page 22.

CIT has the horsepower.

VOL. 74, NO. 2

Nation's Business

Published by the U.S. Chamber of Commerce Washington, D.C.

THE NATION'S BUSINESS

President Reagan insists that any tax reform bill must include basic tax incentives for capital investment in equipment and machinery. *(Page 10)*

PHOTO: TOM TRACY—AFTER-IMAGE

COVER STORY

"We are reaching the point where we can no longer afford product liability insurance," says Maynard B. Weaver, president of an Omaha company that makes man-lift cranes. Weaver is a victim of the liability crisis that is threatening many small and medium-size businesses.

PHOTO: MAX WINTER—PICTURE GROUP

DEPARTMENTS

MANAGING YOUR BUSINESS

John Naisbitt looks at what's hot in franchising. Wife Patricia Aburdene is co-author of his Re-inventing the Corporation. *(Page 47)*

PHOTO: RHODA BAER

ECONOMIC DEVELOPMENT

PEOPLE/PERSONAL

Domino's Pizza head Tom Monaghan (center) believes in rewarding hard work; it has helped build his firm into an industry leader. (Page 81)

PHOTO: ANDREW SACKS

TECHNOLOGY

Tomorrow's house is practically at your doorstep, and the things it will do will astonish you. (Page 34)

PHOTO: TERRENCE MOORE—BLACK STAR

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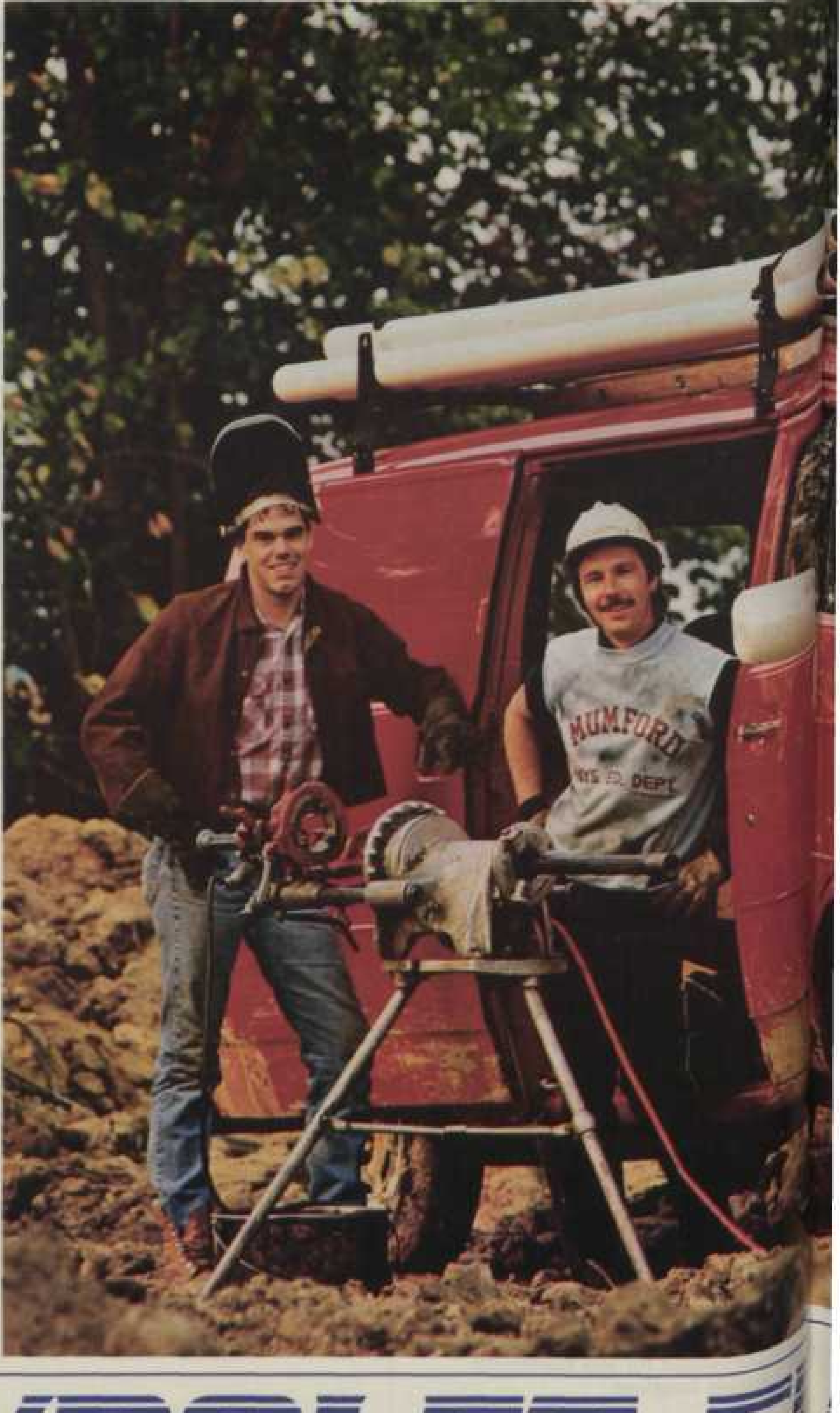


CHEVROLET F

JAMES J. KILPATRICK

A Cigarette Ad Smoke Screen

More than 40 years have passed since the U.S. Supreme Court, in what is known as the Chrestensen case, held that "commercial speech" is a kind of illegitimate son of the First Amendment. Such speech, the Court held, is entitled to no constitutional protection whatever.

We have come a long way from *Chrestensen*, but the next year or two could produce a major test case on this whole uncertain issue. The American Medical Association announced in December that it is drafting a bill to prohibit the advertising of tobacco products in newspapers, magazines or any other medium. Willing sponsors surely will be found in Congress. The bill, assuming it gets out of committee, would have to overcome a filibuster in the Senate, but who knows? Southern senators were unable to prevent Congress from enacting a 1984 law mandating a terrifying warning from the surgeon general on every pack of cigarettes: "Smoking Causes Lung Cancer, Heart Disease, Emphysema, and May Complicate Pregnancy." The crusade against "coffin nails" has reached an intensity that recalls the passion of Prohibitionists 70 years ago. The AMA's bill could pass.

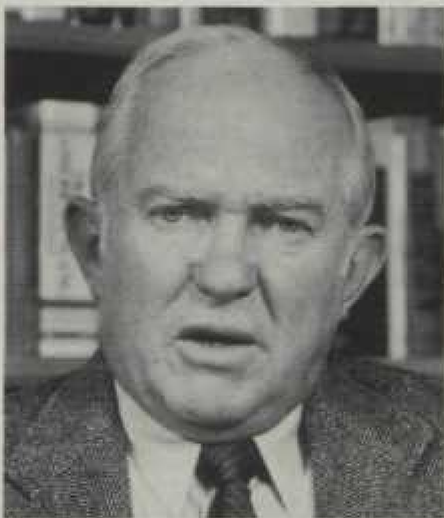
What then? The Chrestensen case of 1942 involved an ordinance in New York City that prohibited the distribution of handbills on city streets. An enterprising fellow had acquired an obsolete submarine; he printed up some fliers advertising the attraction and began passing them out to pedestrians. The police department stepped in and sought an injunction to stop the promotion. The case wound up in the Supreme Court, and without a dissenting voice the Court upheld the injunction. It is clear, said Justice Owen Roberts, that the Constitution protects the dissemination of ideas on the public streets, but it is equally clear that the Constitution does not protect merely "commercial speech."

It was a brief opinion, poorly reasoned, but it amounted to a granite block in the path of business advertisers.

In 1963, for example, the High Court upheld a New Mexico law that prohibited a newspaper in Hobbs from accepting an ad from a Texas optometrist. The law was intended to protect citizens from "the evils of price-advertising methods." The Court declared it "a measure directly addressed to protection of public health." The newspaper was ordered not to publish the ad.

Another setback to the press came in 1973, when the Court divided 5-4 on a case involving help wanted ads in the

Congress has no business telling a newspaper what it may print in its advertising columns.



Pittsburgh Press. The newspaper had been carrying such ads under the heading of "Jobs of Interest to Males" and "Jobs of Interest to Females." The city's Commission on Human Relations viewed the practice as a violation of the Pittsburgh ordinance forbidding employers to discriminate by reason of sex. The High Court agreed. Justice Lewis Powell emphasized that the ordinance was valid; therefore the implied sexual discrimination was illegal.

Little by little, however, "commercial speech" began to find a friendlier reception. Grudgingly, to the despair of Chief Justice Warren Burger, the Court sanctioned most forms of advertising by lawyers. Another case struck down a ban on advertising by dentists. In a 1975 case, *Bigelow* v. *Virginia*, the Court opened the way to advertising of abortion services. In 1976 the Court effectively overruled the old *Chrestensen* doctrine. The case had to do with price-advertising by pharmacies of prescription drugs, which then was prohibited under Virginia law. By a vote of 7-1, the Court struck down the law:

"Our question is whether speech which does no more than propose a commercial transaction is so removed from any expression of ideas that it lacks all protection. Our answer is that it is not."

Justice William Rehnquist, dissenting, feared the majority's decision could have far-reaching consequences: "Under the Court's opinion, the way will be open not only for dissemination of price information but for active promotion of prescription drugs, liquor, cigarettes and other products the use of which it has previously been thought desirable to discourage."

So the matter stands. The general line of reasoning is that commercial advertising enjoys full First Amendment protection if it in some fashion serves a public interest—to deter sexual discrimination in employment, to assist old folks in competitive pricing of prescription drugs, or to help citizens find a lawyer, a doctor or a dentist. If my reading is correct, cigarette manufacturers, already banned from television, may be facing a tough row to hoe in preserving their right to advertise anywhere.

For my own part, I hope that if the AMA's bill ever becomes law, the manufacturers and the press will win, and the AMA and its paternalistic friends will lose. Congress has no business telling a newspaper what it may and may not print in its advertising columns. I hold no brief, you will understand, for cigarette smoking as such. It is a dirty, smelly and unattractive addiction, and if you accept the statistical evidence uncritically, the habit may do all the harm the surgeon general says it does. Even so, in a free society, the people must be free to do foolish things, so long as their conduct does not provably, demonstrably, significantly harm others. In the area of human behavior, governmental bans don't work. Surely we learned that much during the long dark night of Prohibition. Who wants to learn it anew? NB

COMMENTARY

Letters

Which words are sexist? When do they matter? Also: doing business with China; praise for poets; a pan for Prompt Pay.

Avoiding Sexism

I must disagree with much of the article "Skirting Sexism" [December]. Women who object to the use of such words as manpower, man-hours and chairman must certainly be insecure about their own identity. These words have such common usage that they really have no gender.

Also, if a woman has a unisex name, uses only her initials on her correspondence and does not want to be referred to as Mr., the most intelligent course would be simply to sign her name with the desired term of address.

As a working woman, I most assuredly do object to the condescending attitude of many of the men with whom I come in contact. It is these kinds of situations which are intolerable and must be remedied. In my opinion, and that of many women with whom I work, most of the picayune examples presented in this article hardly bear discussion, let alone a total revamping of business practices that cannot reasonably be construed as sexist.

Monica L. Badertscher
Findlay, Ohio

Pearl Aldrich's article was amusing and to the point. Your readers who want additional pointers in recognizing and solving problems of sexist language might enjoy *The Handbook of Non-Sexist Writing* by Casey Miller and Kate Swift. We recommend it highly.

Elizabeth and Hubbard Cobb
Chester, Conn.

Ms. Aldrich must have been appalled at the title. Wouldn't "Avoiding Sexism" have been more appropriate?

Dan Jankowski
Supervisor
Marketing Communications
Burroughs Corporation

Premature Optimism

"A Frontier For U.S. Business" [December] is very informative, but I would take issue with the optimistic outlook for U.S.-China trade.

Americans have long regarded the People's Republic of China as a vast marketplace for their products. But reality remains quite the opposite. The PRC government lacks foreign exchange, and per capita incomes remain low. Second, there is still great uncertainty about the durability of the current economic opening to the West.

Japan, South Korea, Hong Kong, Singapore and Taiwan all have greater two-way trade with the United States than the PRC. The final figure for two-way trade with Taiwan in 1985 may reach $25 billion, while the PRC figure will only be about $7 billion.

Richard D. Fisher, Jr.
Policy Analyst
Asian Studies Center
Washington

Lost Logo

I always enjoy reading your magazine, but there is an oversight in the illustration for Ray Brady's January column ["A Dowager Named Jones"]. The caption for the illustration explains that the Dow Jones Industrial Average is made up of "these 30 large companies," over an attractive display of corporate logos.

Unfortunately, there is a glaring omission: 3M. I believe this firm has earned its proper membership in the Dow Industrial group.

T.G. Keller, Vice President
Stoffel Seals Corporation
Tuckahoe, N.Y.

Editor's Note: The 3M logo was on the original art work, but, alas, fell off on its journey to our printer. We regret the omission.

Computer Accuracy

In Direct Line [November], the acronym ISDN was translated incorrectly. While the concept advocates a network that is international in scope, it is properly referred to as an Integrated Services Digital Network.

Michael P. Smith
Columbus, Ohio

Payments Delayed, Anyway

Re: "Making The Feds Pay On Time" [Small Business Report, January].

We are a small general contractor in Santa Fe, N.M., and primarily do contracts for the Department of Energy in Los Alamos, N.M. We have found the Prompt Pay Act to be a joke and an excuse for delaying payment. Prior to the law's passage, the Department of Energy was the best government agency to work with for prompt payment. Invoices for construction submitted on the 26th day of the month would regularly be paid before the 15th of the following month (a total of three weeks).

Now the Department of Energy holds our invoices for 30 days before starting to process them for payment. We receive our payment 60-plus days after submission. The department refuses to pay interest because it starts the wheels turning on the 30th day as required by the Prompt Pay Act. Our recourse is to file a claim under the Contracts Dispute Act and wait another six months to a year for a hearing.

The payment time frame does not make allowances for the invoice being lost or mishandled by the Energy Department's Los Alamos area office, which is not uncommon these days.

We would like to see the Prompt Pay Act revised to require the government to process invoices on submission. This is the way we pay our bills and the way our suppliers expect payment. Why should the government require different treatment?

Nadine R. Snider
Corporate Secretary
Snider/Chapman Construction Company
Santa Fe, N.M.

Poetic Justice

Re: "Rhyme Without Reason" [James J. Kilpatrick, January].

Strong commendation is in order for the National Endowment for the Arts. Although I certainly would not agree with all its awards, it is to the endowment's credit that its staff and panelists are willing to risk a measure of controversy. The end result is an artistic enhancement making many communities more attractive to work and do business in. The pittance spent by our government on subsidization of the arts is a very worthwhile investment.

Send letters to Editor, NATION'S BUSINESS, *1615 H Street, N.W., Washington, D.C. 20062, and include your phone number. Letters addressed to the Editor will be considered for publication unless the writer requests otherwise, and they may be edited and condensed.*

Nation's Business

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COMMENTARY

Letters

Furthermore, if you want to avoid all obscenity, you might as well shut off the television. It is hard for my children to turn on the TV without confronting sex and/or violence almost any time of the day. It is imperative that all of us in the business world be able to confront vicissitudes without averting our eyes. The National Endowment for the Arts helps us keep a clearer vision.
Kenneth S. Kaiserman
Kaiserman Enterprises
Philadelphia, Pa.

If Kilpatrick is so worried about federal spending, why not take a serious look at the Defense Department?
Michael R. Patterson
Ridgewood, N.J.

Kilpatrick would make more efficient use of his time in protesting the national debt by scrutinizing defense appropriations rather than appropriations for the arts.
Robert W. Huston
Xenia, Ohio

THE NATION'S BUSINESS

Business Outlook

Reagan Sticks To Tax Reform Guns

President Reagan has given written assurances to House Republican leader Robert H. Michel (R-Ill.) and Rep. Jack F. Kemp (R-N.Y.), chairman of the policy-setting House Republican Conference, that he will "veto any tax bill" that does not meet certain "minimum requirements" for promoting economic growth.

The assurances were given as part of a successful last-minute White House lobbying blitz in December that gave Reagan a victory on tax legislation. The President urged GOP House members to vote for the tax bill while acknowledging that it contains provisions he opposes.

Reagan says the business provisions, in a final tax bill, must include two things: "Basic tax incentives for American industries, including those that depend upon heavy capital investment in equipment and machinery," and "a rate structure with a maximum tax no higher than in my proposal." The House bill provides for a top corporate tax rate of 36 percent, instead of the 33 percent contained in the President's plan.

In a letter to Kemp, Treasury Secretary James A. Baker says he will tell the President not to sign any tax bill whose depreciation rules raise the cost of equity-financed capital above the level of the capital cost recovery system the President proposed in May, 1985. CCRS would index the replacement cost of assets to the rate of inflation.

David Burton, a U.S. Chamber of Commerce tax policy expert, says CCRS is similar to the current depreciation rules at moderate rates of inflation, but it would be less generous than those rules are when inflation is low. When inflation rates are high, CCRS would be more generous, he says.

An advantage of the current rules is the 10 percent investment tax credit for most investment in income producing assets. (Motor vehicles and some electronic equipment receive a 6 percent credit.) However, lobbyists say there is little chance that the investment tax credit will be extended.

Oil, Dollar Down: Economy Even

Travelers are benefiting from lower jet fuel prices that have enabled some airlines to slash fares on competitive routes.

PHOTO: GARY KIEFFER

Travelers in search of bargains are crowding airports as they take advantage of reduced winter fares during what traditionally is the slow season for many airlines. Transcontinental fares as low as $65 are available, in part because of falling aviation fuel prices, industry spokesmen say.

Pan American World Airways reports that over the past three years, its average cost for a gallon of jet kerosene has fallen 25 percent—from $1.14 to 86 cents. That means a $5,600 savings in fuel used by a B-747 flying from New York to Los Angeles. At Northwest Airlines, each cent that kerosene goes down cuts $9 million from the airline's annual fuel bill, says company spokesman William Wren.

Airline ticket prices are not all that is falling because of lower energy costs. In most parts of the country, heating oil, natural gas and coal cost less than they did 12 months ago.

Steam, electricity, and oil and gas feedstocks used in production processes, which make up about a third the value of the raw materials manufacturers use, fell about 4.5 percent in price during 1985. That is one reason why prices of finished goods were unchanged in 1985. Economists are optimistic about inflation this year because of widespread predictions that crude oil prices may fall $5 a barrel, to $22.

Allen Sinai, chief economist for the New York-based investment bankers Shearson Lehman Brothers, predicts that lower energy prices will help offset the inflationary effect of a falling dollar as it makes imported goods more expensive.

Ordinarily, he says, producer prices would rise 1.6 percentage points over the 12 months following a 10 percent drop in the dollar's purchasing power. Last year the dollar fell nearly 20 percent in value, compared to a trade-weighted market basket of currencies. But the inflation rate will not reflect that drop because of the fall in crude oil prices, Sinai says.

If inflation is held down by falling energy prices, a second economic benefit may be lower interest rates. The Federal Reserve Board can justify keeping interest rates down when the threat of rising inflation is small.

Lower oil prices offset a lower dollar; the President puts conditions on a tax bill; revising depreciation rules.

The Future Of Depreciation Rules

Business would like to preserve existing depreciation rules.

Existing tax rules for depreciating income-producing equipment and buildings boosted investment by $23 billion last year, according to a study for the National Chamber Foundation by Michael J. Boskin, a professor at Stanford University.

That means that about one out of every five dollars in net investment last year can be attributed to the depreciation rules that were the centerpiece of the 1981 Economic Recovery Tax Act and were watered down by 1982 tax legislation.

The House passed a tax bill last December that would wipe out those incentives and replace them with new levies that experts say could add an estimated $140 billion to business taxes over the next five years. Boskin credits the accelerated cost recovery system, also known as ACRS, and the investment tax credit, with igniting the investment-led recovery that brought the economy out of the nose dive it went into after the prime lending rate hit 21 percent in 1980. In recent months that rate has averaged 9.5 percent.

There is serious concern in the business community that the bill, if enacted, would bring an end to the current growth cycle.

By 1990, Boskin estimates, the savings and investment provisions of the

PHOTO: TOM TRACY—AFTER-IMAGE

1981 and 1982 tax bills will add between $50 billion and $100 billion to the annual incomes of corporations and individuals.

Of the House-passed tax proposal, Boskin says: "It's a gamble that we can avoid an investment slump. If it is enacted, the bill would spur consumption at the expense of investment. That does not make sense right now."

GNP Revised

Recent Commerce Department revisions of the way the gross national product is gauged are expected to have only minor effect on that measure of the output of goods and services. Such adjustments are made every decade, at the same time that a host of government price indexes are rebased.

The revisions added $112 billion to the GNP in 1984, a relatively small amount in an economy that last year had a total output of just over $4 trillion.

Robert P. Parker, associate director of the department's bureau of economic analysis, says of the revisions: "The changes will not rewrite economic history—no recessions were uncovered." But they do reveal how severe the 1981-82 downturn was: Output fell 3.4 percent, not the 3 percent that was initially reported.

Pension Gender Gap: No Narrowing

The number of women entitled to pension benefits when they retire has been rising dramatically. One study shows that 26 percent of workers enrolled in private pension programs in 1972 were women, but that women made up 44 percent of those covered by such programs in 1983. Despite this dramatic gain in future pension coverage, women are not expected to overtake men in this benefit area anytime soon.

Says the study's author, Emily Andrews, an economist with the Washington-based Employee Benefit Research Institute: "One result of this trend is that poverty rates among elderly women will decline in the future, since women's retirement incomes will be rising."

According to the study, pension benefits that women receive are still much lower than men's. That is because, as a rule, women have not been on the job as long as men have and are in lower-wage occupations.

Though there has been a big improvement in women's pension coverage in recent years, the study says the pension gender gap is likely to remain. "There is no evidence of discrimination" between men and women, the report says, but more men than women will receive private pensions when they retire because of career pattern differences between the sexes.

For example, the study says, married women are more likely to take jobs that do not offer pension coverage, because they may be covered by their husbands' benefit programs. In addition, private pensions are more likely to be offered by large, unionized companies—and women tend to work for smaller, nonunionized companies.

The gap in current retirement benefits is smallest between married men and women who have never married. Private pension benefits paid to male retirees averaged $4,811 in 1982, while the nonmarried female averaged $3,668. The gap was greater between all other categories of men and women—married, single, divorced, widows and widowers.

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THE NATION'S BUSINESS

Small Business Report

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New Life For Neglected Neighborhoods

Thomas Carbine, American Street Corridor Business Association president, has witnessed a renewal of old Philadelphia areas.

PHOTO: T. MICHAEL KEZA

A Small Business Administration study of enterprise zones in eight states reveals that they have helped the economies of their cities.

Enterprise zones are designed to stimulate economic growth in depressed areas with high unemployment, population decline and a high percentage of families with below-median incomes. Businesses are generally attracted to the zones because of special tax and regulatory relief and income tax incentives. Some zones provide property tax reductions, sales tax rebates, capital financing and employee training.

The cities featured in the SBA study are: Baltimore; Dayton, Ohio; Decatur, Ill.; Louisville, Ky.; Norwalk, Conn.; St. Louis; Topeka, Kans.; and Philadelphia.

Pennsylvania's enterprise zone program differs markedly from the other states' in that it is an administrative rather than legislative creation. Though there is an annual appropriation of funds for the program, no state law has ever been enacted to set it up. Pennsylvania's zone program encourages public-private partnerships with funds for loan pools, infrastructure improvements and job training. Zones are given priority attention by state agencies for funding, but no tax benefits accrue to the participants.

Philadelphia's American Street Zone, in existence since 1983, is one of three zones the city is nurturing to revive older decaying neighborhoods. Under the leadership of Thomas Carbine, president of the American Street Corridor Business Association, 27 firms have sprung up within the zone: three startups and 24 from outside the zone. Six existing firms have expanded. Of the 33 companies participating in the program, 80 percent are light industrial businesses. The zone has attracted public investment of $1.47 million and private investment of $7.48 million in its two-year history, and 1,426 jobs have been created.

Says Joseph James, Philadelphia's deputy director of commerce: "Our enterprise zone program has been very successful in spite of limited resources because it has taken a coordinated and comprehensive developmental approach to specific geographic areas and then managed a working partnership between the city and each zone's business and residential community. The efforts of the zone managers to coordinate the delivery of city resources, services and incentives have greatly improved the quality of business and residential environment and have encouraged many local firms to reinvest and expand their operations and employ local residents."

Advertising On A Tight Budget

AD-NET USA is an advertising agency operation that caters to small firms with advertising budgets in the $20,000 to $250,000 range. Headquartered in Braintree, Mass., the company offers, through its 42 franchised affiliates, such services as research on and creation of ads, media selection and placement, handling of direct mail campaigns, promotion and public relations.

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franchisees, all the creative work is done in Braintree, and inventoried so that a particular campaign can be used more than once by different affiliates.

"This way, we can recoup our initial costs and then some, and we are able to let our affiliates buy from us at a wholesale price," says O.J. Mulkey, AD-NET's president. "A $50,000 campaign may only cost an affiliate $5,000. Then the affiliate can sell it to the advertiser at retail. Yet even with the general 15 to 25 percent markup, the client is still paying a much lower price than a traditional agency would charge."

Small Notes

• New from the SBA's Office of Advocacy is a comprehensive digest of small business issues, departments and programs that can be found among the various state governments. Subjects covered include procurement programs, small business financial assistance and high technology and innovation initiatives.

The digest, entitled *Directory of State Small Business Issues: Looking Toward the Future*, can be obtained by contacting the Office of the Chief Counsel for Advocacy, U.S. Small Business Administration, 1441 L Street, N.W., Washington, D.C. 20416. Call: (202) 634-4868 or the toll-free Answer Desk at (800) 368-5855.

• In an effort to help small firms understand the Environmental Protection Agency's myriad regulations, the agency has published a complete directory of all its publications. For a copy of the September, 1985, directory, *Information for Small Business*, contact the Small Business Ombudsman Office, OSDBU, Environmental Protection Agency, Washington, D.C. 20460. The toll-free hot line number is (800) 368-5888. In Virginia, call (800) 468-4561.

• A desire to stimulate high technology inventiveness and entrepreneurship prompted Ohio to start its Thomas Edison Program two years ago. The state has made available $67.9 million in matching funds for programs for research and development, technology transfer, services to new enterprises and work force skills training. The fund is administered by Ohio's Department of Development.

Why One Company Didn't Move Away

Diane Rutschilling persuaded Roger James to expand Buckeye Apparel at its original location instead of leaving Mercer County, Ohio.

PHOTO: ANDY SNOW

Small business is becoming a major focus of efforts to persuade companies that might move to another state or community to stay where they are.

One Ohio district that has been carrying on a successful retention and expansion (R&E) program is rural Mercer County. Most of the county's businesses employ fewer than 20 people. "We implemented our R&E program based on studies showing that 80 percent of new jobs come from existing businesses or spinoffs of existing businesses," says Diane K. Rutschilling, industrial development director for the Community Improvement Corporation of Mercer County.

Mercer's R&E program, which began in January, 1984, includes several components. Local business leaders and public officials visit area companies to see how they are faring and what help they may need. Industry forum breakfasts bring in speakers to discuss topics such as health care cost containment. Industry trade fairs promote local products. The county is establishing a revolving loan fund to help companies that want to expand but are short of capital.

According to Rutschilling, the R&E program has paid off. Buckeye Apparel, a manufacturer of men's and boys' active sportswear, was seriously considering consolidating its operations elsewhere. As a result of the county's efforts, about 120 jobs have been saved, and another 50 or 60 will be created, says Rutschilling.

"Our position has always been that it's not the state's or city's job to give us anything to make us stay put," says Roger James, Buckeye's vice president. "But it's sure nice to know that the community is interested in having you stay."

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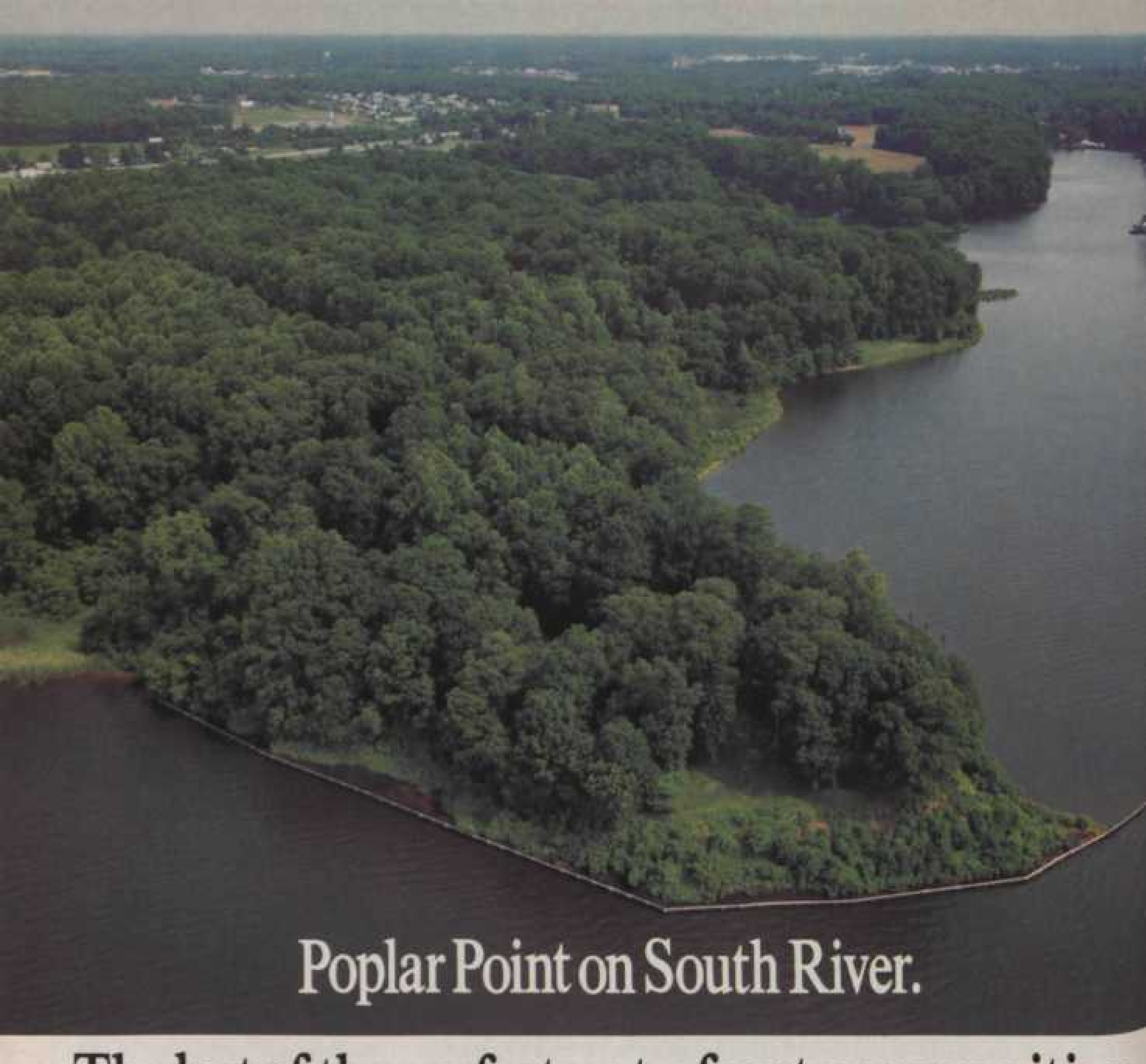

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WASH/PM 2

Washington Roundup

Congress puts deficit reduction and tax reform at the top of its agenda; congressional shenanigans draw fire.

Congress Tries Again

The first bill the Senate will consider this year would approve sale of Conrail to Norfolk Southern Corporation. Then proceedings will become more acrimonious, as attention turns to a House-passed tax reform proposal.

In some respects, the 1986 session of Congress will differ markedly from the unusually long 1985 session. In others, it will be much the same.

The 352-day session that adjourned December 20, Congress' 11th longest, featured inconclusive wrangling over two questions: How should we narrow the budget deficit? Should we revamp the tax code, as President Reagan wishes?

In contrast, representatives and senators will devote many weeks away from Washington this year. Congress has tentatively scheduled lengthy recesses around the major holidays and an early adjournment October 3 to allow members to concentrate on the pressing business of getting re-elected.

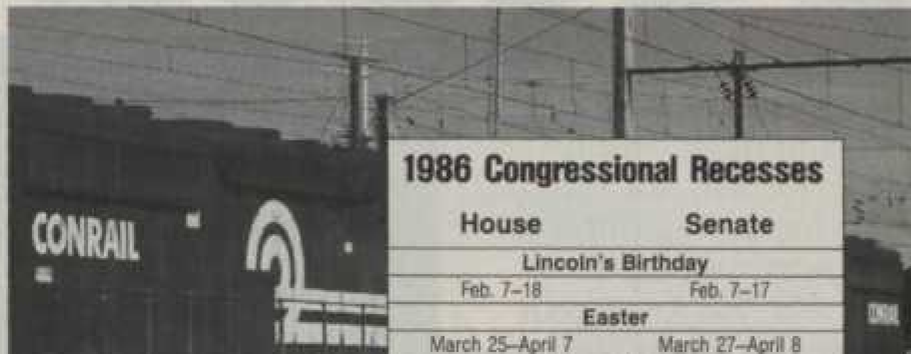
When they are in Washington, however, deficit reduction and tax reform will continue to preoccupy them.

The Senate Finance Committee has already begun tax reform hearings, and—if last year's House action is an indicator—these hearings, drafting of a bill and floor consideration of the measure could take until election day or beyond.

Meanwhile, the House and Senate must reduce spending more than $50 billion to meet the $144 billion deficit target for 1987 set by the Gramm-Rudman-Hollings balanced budget law, and past congressional budget action indicates that cuts of that magnitude will not be achieved quickly. The law, passed last year and named for sponsoring Sens. Phil Gramm (R-Tex.), Warren B. Rudman (R-N.H.) and Ernest F. Hollings (D-S.C.), requires Congress to balance the budget by fiscal 1991.

It is uncertain now what other major issues, if any, Congress will tackle this year. Frequently predicted business-related actions concern:

Balanced budget amendment. The Gramm-Rudman-Hollings law expires in six years, and supporters of permanent spending restraint seek a constitutional amendment requiring Congress to approve balanced annual budgets indefinitely. Senate Majority Leader Robert Dole (R-Kans.) has promised consideration of such an amendment this year. In the House, Reps. Larry E. Craig (R-Idaho) and Charles W. Stenholm (D-Tex.) will continue seeking cosponsors for their amendment.



1986 Congressional Recesses

House	Senate
Lincoln's Birthday	
Feb. 7–18	Feb. 7–17
Easter	
March 25–April 7	March 27–April 8
Memorial Day	
May 22–28	May 21–29
Fourth of July	
June 27–July 7	June 27–July 14
Labor Day	
Aug. 15–Sept. 8	Aug. 15–Sept. 8

PHOTO: DAVID VALDEZ

Campaign financing. A bill by Sen. David L. Boren (D-Okla.) to lower political action committees' contribution limits and a proposal by Sen. Charles McC. Mathias (R-Md.) to finance congressional campaigns from the Treasury will be considered this year, according to Dole. In the last session the Senate rejected 84-7 a move to kill proposed curbs on PACs but stopped short of voting on the curbs themselves.

Superfund. Last year the House and Senate passed differing five-year reauthorizations of the Superfund, used by the Environmental Protection Agency to clean up inactive hazardous waste sites, and could not reconcile them. However, lawmakers have spent so much time on this issue that they no doubt will try again in 1986.

Immigration law. The House Judiciary Committee has begun work on an immigration-law overhaul proposal by Chairman Peter W. Rodino, Jr., (D-N.J.) that would require employers to comply with citizenship verification and record-keeping requirements. The Senate last year passed 69-30 a version that would not unfairly burden employers, according to the U.S. Chamber of Commerce. The Rodino proposal's cost to employers, according to the Chamber, would be as much as $2.5 billion a year.

Deficit Reduction: Lost Round In '85

The schizoid nature of Congress' feelings about deficit reduction was never more apparent than on the eve of last year's adjournment.

Lawmakers had worked feverishly since August 1 to wring about $75 billion in savings over three years out of existing programs, reconciling them with the 1986 budget. Differing cuts approved by representatives and senators would have affected a vast array

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It will be difficult for Congress to reduce the 1987 deficit enough to satisfy requirements of the balanced budget bill known by the names of its sponsors (from left): Sens. Warren B. Rudman (R-N.H.), Phil Gramm (R-Texas) and Ernest F. Hollings (D-S.C.).

PHOTO: JOHN FICARA—WOODFIN CAMP

of popular domestic programs, including Medicare and Medicaid, student loans, highway construction and veterans' and federal employees' pensions.

After batting the compromise version of this "reconciliation bill" back and forth with the House several times, the Senate voted to send it back to committee, which many believe will kill the measure. "The whole year has been spent on deficit reduction, and without this crowning jewel it means all we have done has been for zero," Sen. John H. Chafee (R-R.I.) lamented after the Senate's action.

Ironically, this latest example of congressional unwillingness to grapple with the deficit came just a week after enactment of the budget balancing Gramm-Rudman-Hollings bill.

Next Time, We'll Bring Bunnies

Rep. Lynn Martin (R.-Ill.) compares her colleagues' antics to those of nursery school children.

Congress' pre-adjournment antics were so outlandish that they appalled many members themselves. Among the most vocal of the critics was Rep. Lynn Martin (R-Ill.).

On December 16 the House surprisingly rejected, for no apparent reason, a $368 billion continuing resolution, legislation needed to fund most government programs because Congress had enacted fewer than half of the 13 major appropriations bills. It later passed the resolution.

Then the House refused to take up the Ways and Means Committee's tax overhaul proposal—only to reverse itself and pass the sweeping measure by the voice vote.

That procedure is usually reserved for noncontroversial proposals.

Finally, with the House and Senate deadlocked over the 1986 reconciliation bill, Martin urged Speaker Thomas P.

"Tip" O'Neill, Jr., (D-Mass.) to let her colleagues go home. "It is never wise to keep the House in [session] after 11 p.m," she warned. "It is like managing a nursery school without a nap."

Capital Update

Road Map For Government Programs

Business people can benefit from many of the record 1,013 government assistance programs in place at the end of fiscal 1985. And they can learn about these beneficial programs from the "Government Assistance Almanac 1985-86."

This 600-page paperback reference book by J. Robert Dumouchel contains brief descriptions and eligibility requirements of programs. It also tells whom to contact for more information in each agency.

The programs embrace grants, loans, insurance and other forms of financial assistance. In addition, they include technical assistance, advisory services, investigation of complaints, training, and the sale, donation, exchange or use of federal property, facilities and equipment.

The "Government Assistance Almanac 1985-86" is available from Foggy Bottom Publications, Box 57150 West End Station, Washington, D.C. 20037. Cost is $23.45, including shipping and handling.

Higher Campaign Contribution Write-Off

The tax reform bill passed December 17 by the House would double, to $100, the maximum income tax credit for political contributions.

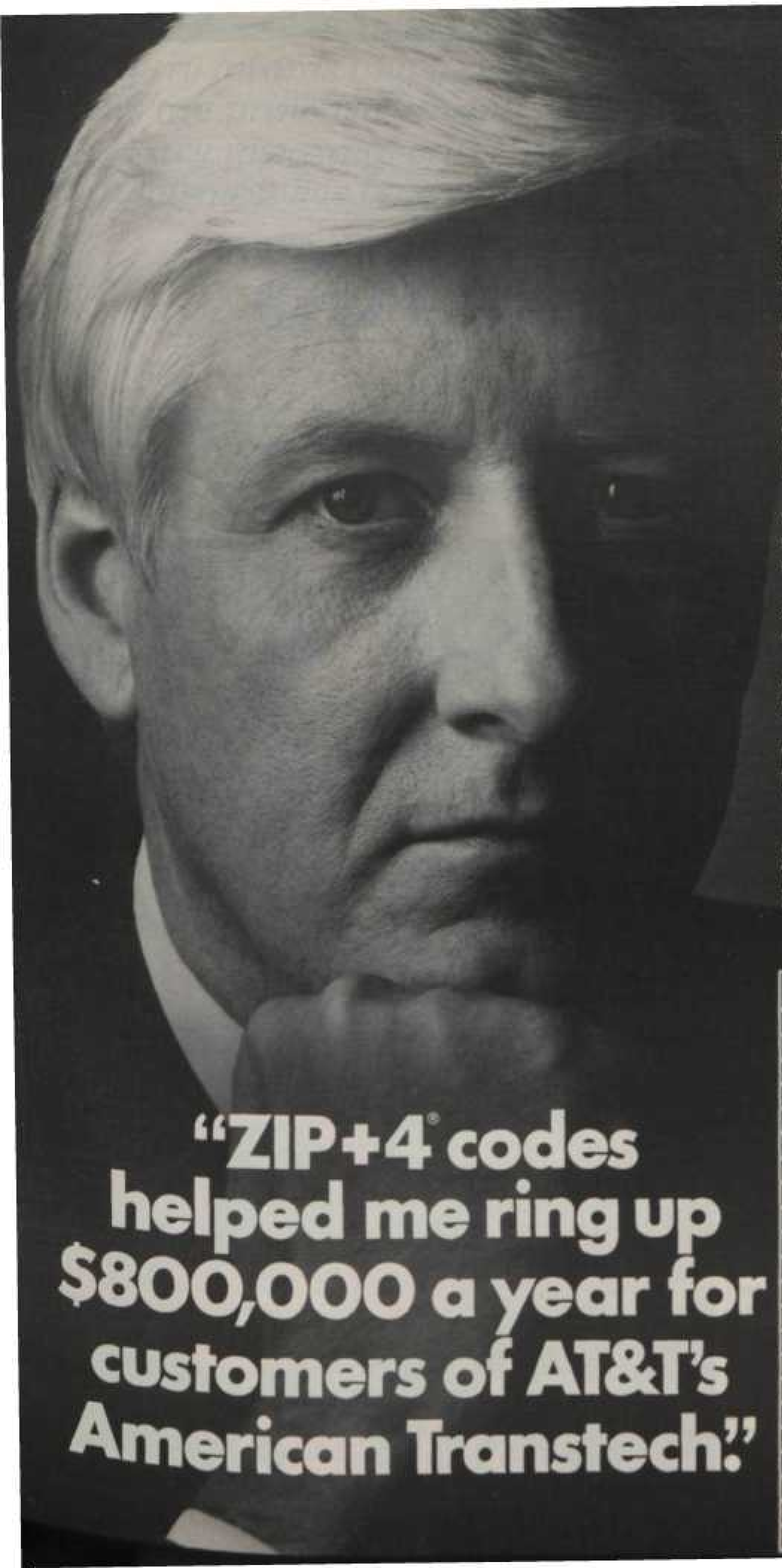
The credit would be limited, however, to contributions to candidates in the taxpayer's home state. There is no such restriction now.

Product Counterfeiting

Businesses lost $18 billion in 1984 as a result of product counterfeiting, up from only $4 billion in 1980. Counterfeiting has cost an estimated 750,000 American jobs and has affected industries as diverse as automobiles, apparel, drugs, computers and chemicals.

"Product Counterfeiting: A Growing Menace to America's Marketplace" is a book by the Council of Better Business Bureaus that provides insight into the costs, dangers and legal ramifications of counterfeiting.

The book is available for $16, including postage and handling, from the council, Drawer A, 1515 Wilson Boulevard, Arlington, Va. 22209. A 10 percent discount will be given on orders for six or more copies.



COVER STORY

Liability: Trying Times

By Harry Bacas

An overweight man with a history of coronary disease has a heart attack while trying to start a lawn mower. In a suit against the manufacturer, he argues that pulling the starter rope required excessive effort. A jury awards him $1 million in damages—plus interest.

A drug dosage administered by hospital personnel to a child who then suffers brain damage exceeds the manufacturer's specifications. The child's parents nevertheless sue the manufacturer—and are awarded $22 million.

A motorcyclist, injured when he runs off the road into a parked truck, sues the truck's owner. A mediation board, citing the motorcyclist's own role in the accident, limits a damage award to $20,000. The case goes to a jury, which increases the award to $4.2 million.

Those examples of recent damage awards are not isolated instances but are part of a cycle that is pulling more and more businesses, particularly smaller and medium-size ones, into what has become one of the most serious problems facing business today—the liability-insurance crisis.

The crisis begins with damage awards in cases that are frequently based on thin legal grounds. It moves to the insurance companies that raise premiums—or limit or deny coverage—to stem losses caused by the swollen awards. It ends up with the businesses that face massive cost increases or are unable to obtain coverage at any price.

For that reason, reform of the civil justice system is a key goal of business organizations that want to ease the liability crisis. A second goal is adoption of a federal product-liability law to replace the present patchwork of individual state laws that require manufacturers and retailers to comply with many different and often conflicting statutes or face lawsuits.

In discussing the overall liability cri-

Jack Hayes, a free-lance writer based in Roswell, Ga., also contributed to this article.

"We are reaching the point where we can no longer afford product liability insurance," says Maynard B. Weaver, president of an Omaha company that makes man-lift cranes. He saw his insurance payments rise 500 percent in one year and his coverage limits go down.

PHOTO: MAX WINTER—PICTURE GROUP

Huge jury awards and a patchwork of laws are principal reasons for a scary insurance crisis into which business has been plunged.

sis at a recent congressional hearing, the U.S. Chamber of Commerce declared:

"A preliminary survey ... indicates that businesses in every region of the country have experienced extreme hardship. In fact, there have been business closures due to the dramatic increase in premium payments. Each day, we learn firsthand of another segment of our economy which has been affected by this crisis. There seem to be no boundaries."

Testifying for the business organization, William C. Wyer, president of the Delaware State Chamber of Commerce, added: "Small businesses are bearing the brunt of the present crisis."

Evidence from businesses across the country supports that statement:

Maynard B. Weaver, president of Elliott Equipment Corporation, an Omaha manufacturer of man-lift cranes, reports that his liability insurance payments are $18,000 a month, up 500 percent from 1984, though his coverage has been reduced. "We are reaching the point where we can no longer afford product liability insurance," he says.

The Amigo Company, a family-owned manufacturer of motorized wheelchairs, has never had a successful insurance claim brought against it. But General Manager Alden Thieme says that, because of the insurance crisis, he does not know whether the company can stay in business.

Amigo, which has offices in Albuquerque, N.M., and a factory in Bridgeport, Mich., was told last year that its insurance premiums were being raised from $30,000 to $150,000.

Though Thieme obtained coverage from a Bahamas broker for $45,000, Amigo expects its 1986 liability insurance costs to be $100,000 to $120,000. "The liability crisis is getting completely out of hand," he says. His company experienced the problem firsthand when it had to face a type of lawsuit becoming increasingly common—those in which the defendant is chosen on the basis not of fault, but ability to pay.

Alden Thieme manages a company that manufactures motorized wheelchairs in Bridgeport, Mich. Although it has never lost a liability suit, its insurance premiums are skyrocketing. Thieme blames a legal system that encourages litigation and allows huge jury awards.

PHOTO: CURTIS LEECE

Thieme recalls that a woman in a wheelchair, accompanied by her husband, was killed when struck by a car that had run a red light on a California street. "The driver had no insurance, so the husband sued us," Thieme says. "The case dragged on for two years before we won. But it cost us $170,000 to defend ourselves."

The company, founded by Thieme's brother, Allen, has 120 employees, does $10 million a year in sales and is the leader in its field. Allen Thieme was named national Small Business Person of the Year in 1981 for successfully launching the firm. His brother and general manager now says that if insurance premiums continue to soar, "it will wipe us out. If we keep adding to our costs, we will price ourselves out of the market."

Vernon Hayes, president of Hayes and Stolz, which makes grain-processing machinery in Fort Worth, Tex., operated without insurance for several weeks last year after his primary policy was canceled. "What do you do?" he asks. "Everybody in America can't shut down. And it's hard to put 70 people out of work." By paying an 800 percent premium increase, he finally obtained a new policy, but it did not provide as much coverage as the canceled policy.

Dick Taylor, a Salt Lake City insur-

COVER STORY

Liability: Trying Times

David and Ruth Hampe—paying bills for their Somerset, Pa., auto salvage yard—needed a bank loan after their liability insurance premium nearly doubled.

PHOTO: LYNN JOHNSON—BLACK STAR

ance agent who is also current president of the Independent Insurance Agents of America, says, "My customers think I'm nuts suggesting they are lucky to renew at double last year's premiums."

It is becoming more and more apparent, he says, that "price is no longer the issue. It's a question of availability, of just finding the coverage."

Joseph Prendergast, American Ski Federation president, says ski resort operators are facing premium increases ranging to 500 percent. He adds that companies that sell roller skis—which have wheels and are used on nonsnow surfaces—are unable to obtain any coverage.

David Hampe had filed no claims under the liability insurance on the wrecker and dump truck he uses in his auto salvage business in Somerset, Pa., but recently received notice his premiums had nearly doubled. He did not have the cash needed to pay the bill and took out a bank loan so he could.

Edward Cone, chief executive officer of Graco Children's Products, Elverson, Pa., says the deductible on his basic-coverage policy went from \$25,000 to \$150,000 in 1985, and he had to canvass five sources to get the \$500,000 coverage he needed before anyone would sell him an excess risk policy. And that provided one fourth the coverage at a cost five times greater than his previous policy. "We have not had any large claims," he says. "Our claims experience does not nearly justify those rates. But, because of the cost, we will have to evaluate our product lines, and we may get out of some." One of those lines is children's car seats.

All 50 states require use of special car seats for tots, Cone notes. "They have to meet federal standards," he says. "It is not a product that is likely to be used for any other purpose than the one it's designed for. Yet, in our court system, that won't mean a thing to a jury. They see an injured child, and they say, 'Somebody has to pay.' "

He cites a \$10 million claim against another car-seat manufacturer resulting from an accident in which a passenger not wearing a seat belt was thrown against a baby strapped into a car seat.

Long-range trends, as well as awards in specific cases, spotlight the connection between the litigation explosion in the nation's courts and the insurance crisis.

In 1984 there was one private, civil lawsuit for every 15 Americans. The number of personal injury cases with awards of \$1 million or more is now more than 13 times the 1975 total. A record 12 million lawsuits were filed in state courts between 1978 and 1983. The average product liability award has increased from \$345,000 to more than \$1 million in 10 years, and the number of product liability suits filed in federal courts alone has tripled since 1960.

There are three times as many lawyers practicing now as there were in the 1950s, and it costs 37 times more to run the tort system than it did then.

Chief Justice Warren Burger says the American public "has an almost irrational focus—virtually a mania—on litigation as the way to solve all problems."

Richard K. Willard, an assistant U.S. attorney general, asks of the fast-growing insurance crisis that is affecting more and more businesses: "How did we get into this mess?" He continues: "I believe the answer lies in recent legal movements by activist judges and tort lawyers who see no bounds to the ever increasing expansion of tort liability."

The traditional basis of tort liability is fault—one individual's actions have caused harm to another individual, who seeks recompense. But under the current trend, Willard says, tort law is increasingly invoked to punish those who have done nothing wrong but have resources to pay damages.

Rick Berman, executive vice president of Dallas' S&A Restaurant Corporation and chairman of the Liability Crisis Steering Committee recently created by the U.S. Chamber of Commerce to coordinate lobbying and other efforts in behalf of reform, says that curbing tort system abuses "is the main road to solution of this problem."

The Chamber committee, he explains, was established as a catalyst to bring together the many interested groups seeking a solution to the insurance crisis. Among other activities, he points out, the committee operates a clearinghouse "to share information and to inform the public of the dimensions of the liability problem."

And the impact of the problem on the general public is much greater than is generally realized.

Of the 13 U.S. firms making football helmets a few years ago, only three are still in production. The others dropped out because of insurance costs.

PHOTO: JON RILEY—FOLIO

Rick Berman, of Dallas' S&A Restaurant Corporation, heads a business group seeking state changes in the legal tort system and uniform product liability standards.

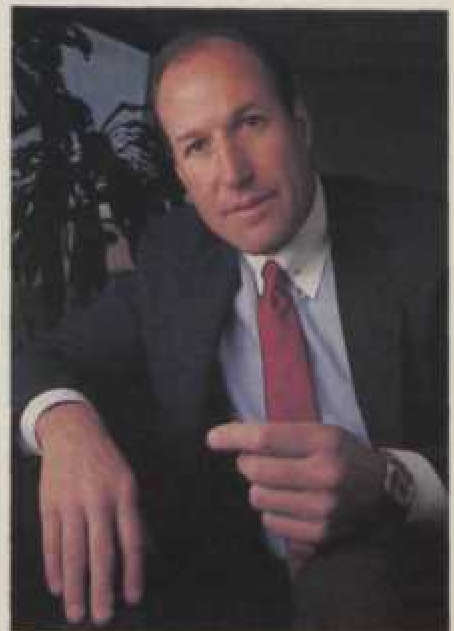


PHOTO: C. THATCHER

Malpractice awards against physicians reached an average $950,000 in 1984, and the costs of liability insurance for medical practitioners generally are changing the way many of them approach their patients. The trend to defensive medicine involves additional—and often costly—tests and procedures by physicians concerned that failure to go those extra lengths could lead to allegations of negligence.

But the combination of higher insurance costs and defensive medicine is raising the nation's medical bills an estimated $2 billion to $4 billion a year, an expense being felt mainly by employers who provide health insurance to workers.

Consumers can no longer purchase the drug Bendectin, which had been the only safe and effective treatment for persistent nausea in pregnant women. The manufacturer took it off the market when liability insurance reached $10 million a year, more than 80 percent of annual sales. A nationwide shortage of vaccine to protect children from diphtheria and whooping cough developed when all but one of several companies manufacturing it halted production in the face of mounting liability insurance costs.

Insurance rate boosts are showing up in the price of goods. Twenty percent of the cost of a stepladder now represents the manufacturer's expenses for liability insurance. There is also an effect on employment. Of the 13 U.S. firms making football helmets a few years ago, only three still are. The others dropped out because of insurance costs.

Owners and managers of smaller businesses could face problems beyond the immediate question of insurance coverage, says Jan E. Smith, president of a Bradenton, Fla., business-investment firm. "If banks find a company has lost its liability insurance, they may start asking, 'What about those operating loans we made to that company?' And they may not renew those notes.

Each day, we learn firsthand of another segment of our economy which has been affected. Small businesses are bearing the brunt of this [liability] crisis.

—William C. Wyer, president, Delaware State Chamber of Commerce

Banks may require liability insurance before they will make a loan."

In his testimony to Congress for the U.S. Chamber, William Wyer said: "Perhaps this crisis will reserve ultimately its harshest consequences for American consumers. When obstetricians withdraw from their profession, it is the quality of health care for all of us which suffers. When sporting goods manufacturers go overseas, it is the American worker who becomes unemployed.

"And when . . . firms announce price increases primarily to cover rising insurance costs, it is all of us who will pay more through higher prices."

The actual and threatened problems of the liability crisis have spurred a wide range of reactions by those most affected—individual business and professional people, their trade organizations, the insurance industry and the legal profession.

These are among steps being taken on the business side:

- Business people in all fields are shopping more aggressively for coverage by obtaining quotes from several brokers. They are also accepting higher deductibles and are self-insuring when they can afford to.
- Many businesses are hiring consultants to conduct risk audits and help them analyze their insurance needs more carefully. Consultants are also showing companies how to minimize exposure to large damage awards by keeping detailed records on product-safety management programs with an eye toward impressing juries if they ever face them.
- Some companies unable to meet massive premium increases or even to obtain coverage are, like Vernon Hayes of the Fort Worth machinery-manufacturing company, taking the ultimate step of "going bare"—operating without liability insurance and hoping for the best.
- Contractors are setting up subsidiaries without assets to work in high

COVER STORY

Liability: Trying Times

liability areas like cleanup of hazardous waste and asbestos removal.

• Engineers and architects are writing contracts that require clients to share the risks or indemnify them against claims.

• Organizations are establishing special programs to help member companies and individuals curtail exposure to risk. The American Medical Association, for example, is showing physicians how to avoid or correct situations that might invite lawsuits. The National Restaurant Association is teaching members how to lower their vulnerability to lawsuits stemming from later conduct of customers who have been served drinks.

In addition to such specific steps, there is the drive by many business organizations for long-term reforms in the civil justice system and in basic laws on liability.

The National Association of Independent Insurers, American Insurance Association and Alliance of American Insurers have joined in supporting three tort system reforms they say will improve the affordability and availability of liability insurance:

1. Fair application of the "several liability" doctrine, which assigns damages based on the defendant's determined share of negligence, rather than on ability to pay.

2. Abolition of punitive damages in civil liability litigation on the ground that they excessively drive up settlements and awards.

3. Adoption of "state of the art" rules that will limit product, professional and municipal liability claims to standards prevailing at the time a damaging act takes place, rather than at the time of litigation.

In addition to the Steering Committee, the U.S. Chamber of Commerce is establishing a Blue Ribbon Civil Justice Action Group to recommend legal system changes that would reduce the extent and cost of litigation and would increase the availability and affordability of liability insurance.

One area of top concern to those seeking reform of the civil justice system is the practice of compensating lawyers through contingency fees, which are based on the amount of damage awards they win for their clients. Critics say that policy encourages lawyers to encourage clients to file lawsuits on a no-lose basis—the client incurs no costs if the lawyer does not win an award.

Tim Reath, chief executive of the

Ski resort operators have more than weather to worry about. They are paying liability insurance premiums that have increased up to 500 percent in a year.

PHOTO: MICHAEL PHILIP MANHEIM—FOLIO

eastern division of Jardin Insurance Brokers and past president of the National Association of Insurance Brokers, says, "Within a couple of years, we're going to see some serious reform activity in this area. We definitely need to get off the contingency system."

There is a division within the legal profession on the system. The American Bar Association published in its journal recently a debate on the contingency approach, with one lawyer terming it an "indispensable delivery device ... for the use of the civil law as a hammer in support of consumer interests." But another attorney asserted that "the pro-plaintiff trend of the last 25 to 30 years" has made the contingency fee a luxury that "must be controlled or modified in some way if the American system of justice is to be preserved."

Peter Perlman, president of the Association of Trial Lawyers of America, argues that the contingency fee system cannot be blamed for the surge in personal injury suits.

"Under the contingency fee system," he argues, "victims may have an incentive to bring weak claims, because they risk nothing. But, conversely, the contingent-fee lawyer has no such incentive, because the compensation for a weak claim is likely to be zero."

What about the argument that sharply increased advertising by lawyers seeking clients has been a factor in the litigation explosion? Joel Hyatt, whose 30-second television commercials have made him one of America's best-known lawyers and his law firm the nation's second largest, says advertising by lawyers has contributed little to increasing case loads of damage claims.

"The injury area of the law was already being served by the legal profession," he says. Hyatt, whose firm has 575 attorneys in 200 offices, says their work is mostly in divorce cases, bankruptcies and probate law. Less than 5 percent is in injury cases, he says.

But he does have a recommendation for the insurance industry. The current problem, he says, is not the large jury awards that receive much attention, but "the far greater number of small cases that should never have been brought to court."

Hyatt says some lawyers created "a whole frivolous lawsuit industry" after insurance companies made the "bad mistake" of deciding "that, if the cost of litigating a case was greater than the amount insurers could settle for, they would make the economic decision to buy those cases off—pay $5,000 to settle rather than $8,000 to fight the case." He says insurers should take the long view by fighting the bad cases regardless of the expenses involved.

Some insurance companies have begun to do that and to defend themselves in other ways. Increasingly, they are writing policies to cover only claims made during the life of the policy, excluding retroactive claims. Some are also limiting how much they will pay for legal defense of the insured company and for punitive damages.

Though the tort system and the cur-

Franklin W. Nutter, president of the Alliance of American Insurers, says the availability of affordable insurance depends on a climate of "legal and regulatory stability."

PHOTO: T. MICHAEL KEZA

rent, fragmented product liability laws are viewed as the principal pressures on insurance rates, insurance companies concede that part of the problem represents a delayed reaction to early 1980s pricing and investment policies. Interest rates were so high that the companies competed intensely for funds to invest. To attract premiums that could be used as investment capital, the entire industry engaged in what was termed "cash-flow underwriting." A former marketing vice president with one of the 10 largest property-casualty insurers says, "The theory was that, if you could sell a dollar's worth of risk protection for 50 cents and still end up with a dollar and 5 cents after investments, you'd be ahead of the game."

But, in 1984, as losses overtook investment returns, insurers became far more careful about what risks they would take at what price, and premium increases, limitations and even cancellation of coverage followed.

Another factor that put pressure on premium costs was the shrinkage of the reinsurance market, where underwriters spread risks they have insured. Andre Maisonpierre, president of the Reinsurance Association of America, told a congressional hearing recently: "Insurance policies and reinsurance contracts written in the 1950s and 1960s for relatively low premiums are now responding—pursuant to court decisions or retroactive legislation—to claims which were never anticipated under the contracts. The resulting impact on reinsurance has been traumatic."

Maisonpierre says the withdrawal of foreign reinsurance capital has reduced the property-casualty industry's capacity by about $5 billion, or approximately 7 percent. "We can foresee that 1986 will be much more difficult for U.S. reinsurers than 1985, simply because the funds are not going to be available," he adds.

Some critics accuse the industry of overreacting to its revenue problems. J. Robert Hunter, president of the National Insurance Consumer Organization and a former federal insurance administrator, joined with Ralph Nader at a recent press conference to argue that industry loss reports were "misleading and fraudulent." They held that the $5.5 billion loss cited for last year did not reflect tax credits and the increased value of investments and listed dividends as expenses.

Franklin W. Nutter, president of the Alliance of American Insurers, replied that the criticism was based on "voodoo accounting." He said the reports were based on requirements of state insurance regulators who, among other things, specify that dividends be carried as expenses. Hunter said insurance companies do not willingly withhold coverage: "We are not in the business of not selling insurance."

Resolution of the problem is not expected to come quickly. The insurance industry still faces difficulties. Final 1985 figures are expected to show a premium/cost ratio of 116 for the year, compared with 118 for 1984. (The ratio uses a base of 100, meaning that for every dollar of premiums in 1985, the industry paid $1.16 in costs and claims.)

At the same time, the dimension of the problem and business demands for action are getting attention. Mary Jane Fisher, Washington-based correspondent for the insurance industry publication, *National Underwriter*, says, "The members of Congress are getting heat from their constituents who want something done about availability and pricing of liability insurance."

Though the campaigns for civil justice reform and a uniform product liability law continue to be pressed, and the insurance industry is working its way out of its financial problems related to investment policies of recent years, many individual businesses worry that they will sooner or later face the dilemma of Maynard Weaver of Omaha's Elliott Equipment Corporation:

"We'll go broke if we pay the premiums. If we go bare, we risk product liability suits shutting us down. We're just sitting here bleeding to death." NB

To order reprints of this and the following article, see page 77.

Insurance Industry Gains And Losses

The U.S. insurance industry collects $249 billion a year in premiums. That is 6.9 percent of the gross national product and an average of $972 for every man, woman and child in the country.

There are 5,600 insurance companies, with nearly 2 million employees (a third of them agents and brokers) and assets of $985 billion.

The Insurance Information Institute says that 48 percent of the world's premiums are collected in the United States, followed by Japan, 13 percent, and West Germany, 8 percent.

Property-casualty insurance in this country, most of it written by 900 companies, takes in $118 billion in premiums, about half of it in personal auto and homeowner policies and half in business lines.

For two years, property-casualty insurers have had net operating losses. In 1984 the total loss was $3.8 billion; in 1985, $5.5 billion. Critics charge that those losses are overstated, but the industry denies that accusation, stating that 1985 was the worst year for insurance since the San Francisco earthquake of 1906.

The companies have been paying out $1.18 in claims settlements and expenses for every $1 they collected in premiums.

Of the payout, 88 cents goes for claims and adjustment expenses, 25 cents for sales and administrative expenses, 2 cents for dividends to policyholders and 3 cents for taxes.

Losses in some lines were much larger than the overall loss. General liability policies cost the companies $1.51 for every $1 they got in premiums. Commercial auto liability cost $1.42. Medical malpractice cost $1.61.

COVER STORY

New Directions In Liability Laws

Safeguards for business that are uniform nationwide—those are reformers' goals

Product liability law in this country is a confusing patchwork. Only 31 states have statutes, and no two are the same. Congressional bills establishing uniform nationwide standards have been stymied repeatedly, with trial lawyers leading the lobbying.

The result is confusion for businesses, insurers and injury victims alike. A case that would be won in one state would be lost in another.

With lawsuits increasing more than 500 percent in a decade, courts have become clogged. Decisions are delayed.

Litigation takes years to run its course before victims are compensated, and then legal costs often take more than half the money paid in claims. A Rand Corporation study of asbestos liability cases showed that lawyers' fees consumed 63 percent of all damage awards. Since the 1950s the population has grown 60 percent, the number of lawyers 200 percent and the cost of the tort system, adjusted for inflation, 700 percent.

Although liability law arises from the tort system—a person who wrongs another must compensate him for the wrong—in recent practice it has been moving in new directions.

Questions of negligence and fault ("Did someone do wrong, and did it cause this injury?") have grown nearly irrelevant. Instead, courts have moved toward a concept of entitlement to injury compensation: "A person has been hurt, and somebody has to pay. Who involved has the deepest pockets?"

The judge in the celebrated Agent Orange case pressured the seven chemical company defendants to pay $180 million to Vietnam veterans and their families even though, he said later, he did not believe there was any medical evidence to support their claims.

In this effort to find compensation for victims, judges have created a doctrine of "strict liability." This means that manufacturers are responsible for more than doing their best to produce products without defects. They are also responsible for creating product designs whose usefulness outweighs all possible hazards, and they must foresee ways in which a product might be misused and warn against them.

U.S. Asst. Atty. Gen. Richard K. Willard (left) blames lawyers and judges who have tried to compensate all plaintiffs at the expense of anyone with deep pockets.

PHOTO: T. MICHAEL KEZA

The limits on manufacturers' liability have been steadily expanded.

Biro Manufacturing Company in Marblehead, Ohio, is being sued for a hand injury caused by a hamburger grinder the company sold 27 years ago. Originally sold to the Air Force, the grinder was privately owned and in commercial use when the accident took place. Its safety guard had been removed.

H.B. Rouse & Company in Chicago is being sued for injuries on a bench milling machine it sold in 1947. The machine, still owned by the original purchaser, was being used by a new operator in an obviously unsafe manner.

Business people generally want laws that assure a reasonable balance between rights of plaintiffs and defendants.

Some have proposed that product liability be removed from the area of tort and a new no-fault compensation system be created that would operate like workers' compensation. The system, supported by business taxes, would use administrative shortcuts to avoid courts, guarantee victims speedy relief from economic losses and protect manufacturers from suits.

Other business people, and the Reagan administration, see the answer in reforming present liability laws. A coalition of business groups has advanced the following as goals of such reform:

- A fault-based standard for judging the adequacy of product design and the appropriateness of safety warnings.
- A statute of limitations on the time period during which manufacturers can be held liable for a defective product.
- A standard limiting the number and size of punitive damage awards for injuries from a particular product defect.
- A standard requiring that damages reflect the extent to which plaintiffs contributed to their injuries.
- A clear presumption that government contractors are not liable for injuries resulting from equipment or systems that they have built to government specifications.

Sen. Robert W. Kasten (R-Wis.), author of the best-known reform bill, says enactment would "put money for injuries back into the hands of the victims rather than in the pockets of lawyers."

He says uniform nationwide liability standards, "by placing clear responsibility on people who make unsafe products, will bring about the manufacture of safer products . . . and do so without one cent spent for additional regulation." NB

—Harry Bacas

MANAGING YOUR BUSINESS

Pregnant Poise

Pregnancy at work need not be disrupting, but much depends on how the mother-to-be handles it.

By Susan Schiffer Stautberg

Rep. Patricia Schroeder (D-Colo.) once was asked by a male colleague how she could be a member of the House of Representatives when she had two small children at home. Schroeder's reply: "I have a brain and a uterus, and I use them both."

She is not alone. Motherhood and career are no longer either/or propositions. The number of American working mothers has been rising steadily for years.

After enjoying the psychological and material rewards of successfully competing in the career world, many women are reluctant to limit their attentions to home and children. Economic need has also been a factor. In many families one paycheck simply cannot cover the basic necessities.

Success in simultaneously pursuing a career and raising a family requires a delicate balancing of time, energy and priorities. Few women are naive enough to think it will be a snap. Working women who choose to be mothers are taking a bottom-line approach to their new status and what it means to both home and office. Although there are still working women who opt to quit their jobs once maternity leave is over, an increasing number of expectant mothers carefully plan to make sure their careers and employers do not suffer. They get more help today than they once did.

The Pregnancy Discrimination Act of 1978 has made it illegal for an employer with a staff of 15 or more to dismiss a pregnant employee or force her to go on leave at some arbitrary point in her pregnancy.

She is further supported by changing roles at home; her mate is less likely to resist doing what used to be known as "woman's work."

Also, women's magazines and books are increasingly addressing the issue of pregnancy on the job and offering solid suggestions that will help the expectant mother preserve her job and spare the company the stresses and expense of hiring and training a new employee.

Susan Schiffer Stautberg is the author of Pregnancy Nine To Five: The Career Woman's Guide to Pregnancy and Motherhood, *published by Simon & Schuster. She is a public affairs consultant and director of communications for Touche Ross & Co./New York.*

Knowing the importance of choosing businesslike maternity wear, Abigail K. Wenner (center) considers a dress at Mothers Work, a Washington shop for expectant career women.

It is helpful for both managers and employees to be familiar with the current wisdoms.

The pregnant working woman who is serious about her career should maintain a professional image and attitude. Bosses, co-workers and clients will take their cues from her and will regard her condition as a matter of course.

Just as most private matters are not allowed to intrude on the workday, pregnancy should not be made an issue at the office. While one woman was making a formal business presentation her fetus starting kicking, and the inner commotion was obvious to her audience. Instead of interrupting herself with explanations or apologies, she simply patted her abdomen and continued with her speech. That did not stop the fetus' acrobatics, but it put an end to the audience's distraction, and she was able to finish with its full attention.

The employee's maternity clothes should be as businesslike as possible, and her grooming habits should continue to be impeccable (no small feat when precious morning preparation time is spent taking care of nausea).

Because of the high risk of miscarriage, especially during the first trimester, she should wait until the fourth month to make the good news general knowledge. The boss should be the first in the office to know, and a businesslike agreement should be reached on what accommodations and adjustments need to be made.

Jory Barone, research manager at the National Clearinghouse of Alcohol Information in Rockville, Md., continued working until the day before she delivered and then took 12 weeks off, following a plan she had made with her supervisor far ahead of time.

Susan Looser Duke, assistant to the publisher at *Mass Transit* magazine in Washington, cashed in on her close relationship with her boss and told him of her plans a year before she even conceived. "This strategy wouldn't work in every office, but because the magazine staff has only seven people, and because I had been with the company for

Pregnant Poise

Susan Duke coordinated her family planning a year in advance with her boss, magazine publisher C. Carroll Carter.

over 10 years, I knew it was in both our interests to tell the publisher early," she says. "This way he would have at least a year to prepare for the change."

Now that she is pregnant, they are discussing the feasibility of a four-day week before she delivers and of part-time work at home once she has her baby.

"The initial reaction is always 'Wow, that's great,'" she says, "but once the ramifications sink in, the next response is 'What does this mean for the company?' It's only fair to the business to stay as healthy as possible so you are still productive and your attendance is dependable."

Plotting the course of an employee's pregnancy will probably mean delegating some of her responsibilities to others. Careful planning by the pregnant employee and her boss will head off worries later on. The responsible employee wants to be sure that the company will not suffer because of any reduction of her capability, and she wants to be sure that her job is safe.

At this stage the employee and her boss should consider the following questions:

- When will she need time off, and how much time will she need? In addition to maternity leave, doctor's visits and perhaps a shortened workday or week should be considered.
- How does she want to account for the time off? Will she draw on maternity leave only or take vacation or personal leave as well?
- When does she plan to return to work after the baby is born? Will she come back full time or part time? Is working at home feasible?
- How much will she be paid during her absence?
- How will she keep in touch with the office? If she expects to be gone for more than three weeks, it would be a good idea to assign her a special project to work on at home. This is productive for the company and helps maintain the employee's sense of professional ability while she is surrounded by pastel colors, rattles, and stuffed lambies and bunnies.

When Ilana Knapp, chief financial officer of a small financial securities firm, E.A. Moos & Company in Summit, N.J., became pregnant with her second child, she had firsthand knowledge of the pitfalls and carefully planned to avoid them. She remembered how overextended she had felt when she had taken care of her first newborn while maintaining visibility at her job.

She and her boss agreed on the strategy of working around her new pregnancy. They accepted the inevitability of a little inconvenience and put short-term problems in perspective. They also put a computer terminal in her apartment so she had instant electronic access to the office.

Most expectant professionals find that their working relationships are initially affected by the new maternity look. But they also find that those relationships often snap back into the proper context once their pregnancies become old news.

One challenge, however, is keeping personal business private and professional business up front. "It seems as though your body becomes everybody's body when you're pregnant," says Abigail K. Wenner, manager of the international section of a Washington law firm, Arnold & Porter.

"I know they mean well," she says, "but some of my business associates get this urge to touch me and pat the baby. I try to smile and be nice, but it's hard to do because the baby is not part of the business conversation.

"When I'm not working, I know I can let loose and be the private me, but when I'm on the job I am strictly business."

Even the best-laid plans can be thwarted, but a professional attitude will compensate for poor fortune. When Jane Metzroth, a vice president at the New York investment banking firm of Salomon Brothers, discovered that she had to spend three months of her pregnancy in bed, she did not take the news lying down. She went to bed, all right, but she took her work with her.

Her job as director of human resources includes providing information on compensation, extra benefits and leaves, dealing with outside employment agencies, screening job applicants and planning placement of personnel. She saw no reason why most of this could not be handled by phone. Her chief goal was to keep her condition a secret. She did not want people to be afraid to disturb or distract her.

Her 20-person staff covered for her. Staff members responded to phone calls by saying that she had just stepped away from her desk. The message would then be relayed to Metzroth's apartment and the call returned. Metzroth continued to preside at her twice-weekly staff meetings via conference call. She also met regularly—at her apartment, over lunch—with the managers of the firm's departments.

From her bedside, Metzroth renegotiated a $2.5 million health insurance program and interviewed a score of job applicants. Although shoeless and propped up in a rented hospital bed, she consistently looked professional in a tailored navy blue suit, pantyhose and makeup.

As Metzroth showed during her unfortunate and unforeseen complication, even when a pregnant employee is down, she does not have to be out. ■

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TECHNOLOGY

No (beep) Place Like Home (zzzt)

The home of the future is practically at your doorstep, and the things it will do will astonish you.

By Joseph A. Harb

It is 4:45 p.m., and you are getting ready to go home. You are suddenly called to a last-minute meeting on a new marketing strategy. But you had invited a quartet of business associates to your home for dinner at 7, and this meeting could be a late one. What will you do? Easy. Phone home.

The house will answer. Instruct it to delay the cooking of the stuffed leg of lamb by one hour. With the same call, tell the house to turn on the outside lights at the usual time, but to bring the temperature up to normal one hour later than usual, thus saving a little on your energy bill. Finally, tell the house to phone the homes of your associates and let them know that dinner has been rescheduled for 8 p.m. instead of 7 and that you're looking forward to entertaining them. The messages will be waiting for them when they get home.

This may sound like a pretty implausible house—but it's one that is coming. Already, houses in which a central computer controls all lights, appliances, security systems and electronics are available. And a house that uses less than half the energy of today's typical home is available. In fact, the typical home being built today uses about half the energy of the typical home built before the first Arab oil embargo, according to a spokesman for the National Association of Home Builders.

A house that diagnoses problems—a leaky roof or a failing furnace, for example—and contacts a repairman (after comparing repair cost estimates, of course) could be available before the end of this century.

Some prototypes of these homes are scattered around the country. In Kissimmee, Fla., Xanadu House is the high tech vision of architect Roy Mason. Xanadu House previews features of a future home: a robot that starts tours for visitors, four large-screen TVs that monitor other rooms and contain a computer graphic art gallery, and simulations of other advanced systems. Mason foresees a time when a home fully monitors itself, reads you the news while you're in the shower and even prepares your breakfast. In Arizona, Ahwatukee

Joseph A. Harb is a Washington writer specializing in business, finance and technology issues.

Arizona's Ahwatukee House prefigures the houses of tomorrow. The energy-efficient design is supplemented by computer controls to make sure the systems run most efficiently. The computer also controls the electronic lock system.

PHOTOS: TERRENCE MOORE—BLACK STAR

TECHNOLOGY

No (beep) Place Like Home (zzzt)

This home control system, which uses an Apple II computer, can be operated by voice commands. It has a 206-word vocabulary.

PHOTO: ARTRA CORPORATION

House has eliminated hallways (allowing natural lighting in every area), keys (a computer activated code is used instead) and included several time and energy-saving devices. (Designed by the Frank Lloyd Wright Foundation, it is on the market for $850,000.) The Rocky Mountain Institute House, perched 7,100 feet up in the Rockies, uses 5 to 10 percent of the normal household electricity load, with bills averaging less than $30 per month, thanks to passive solar heating, an air-driven shower and special light bulbs, windows and appliances. Amory Lovins, director of research for the institute, says that the $6,000 cost of all the special equipment was paid off in less than a year by savings in utility bills. And thousands of households around the country are already getting smarter and costing their owners less, albeit on a less radical scale.

In many respects, the basic components of a so-called "smart home" already exist. The introduction of microprocessor technology to appliances and the electrification of what used to be manual devices were the first steps in this development. According to Joy Schrage, manager of appliance information services for Whirlpool Corporation, microprocessor controls on appliances will become standard within the next 10 years and synthetic speech will increasingly be heard from everyday durables.

Now, several devices that allow linkage of everything electronic in the home—appliances, computers, telecommunications, audio equipment—are either on the market or in development. These systems incorporate existing home wiring, radio signals, heat and motion sensors and coaxial cables, all of which feed information to the home's "brain." The integration of electronics and telecommunications with architecture is being advanced by several companies.

Compu-Home Systems International, a small company based in Denver, has a home monitoring and control system called TomorrowHouse that can regulate each room of a house separately for optimum heating, ventilation and air conditioning. Heat, light, smoke and motion sensors tell the system when someone is in a room, and it adjusts the temperature accordingly. It can also turn lights and appliances on and off on a regular schedule. A voice synthesizer can notify a homeowner when certain actions have been taken. Approximately 300 of the systems have been sold in the last year for between $1,500 and $2,000 each plus the price of an Apple II computer, which displays what systems are functioning on a floor plan of the house.

CyberLYNX Computer Products of Boulder, Colo., is selling an interactive, wireless system using radio frequencies that can be run with an Apple or IBM computer. The company has sold several hundred of the systems for between $800 and $1,500 each. "We think we're delivering a total home [automation] system for the price of a wireless burglar system," says John Antonchick, CyberLYNX's vice president for marketing.

Another home control system, Artra Corporation's Waldo, has a 206-word vocabulary and can recognize about 24 different vocal commands. The core of the Arlington, Va., firm's system is a printed circuit board that plugs into an Apple II. Lights and other electronics are controlled by high-frequency signals and the home's existing electrical wiring.

HyperTek, Inc., in Whitehouse, N.J., offers HomeBrain, another integrated system using a personal computer. The $2,200 system (plus another $500 to $1,500 for installation) goes beyond some other systems in that it can be programed to calculate an outdoor temperature, determine the amount of time needed to bring the indoor temperature to a comfortable level and switch the heating or air conditioning on at the indicated time.

Small companies are not the only ones entering this market. General Electric Company's Home-Minder, a simple system selling for about $660, will be installed in more than 8,000 new homes built by Ryan Homes this year.

All these home brains are assuming a position at the core of the new American home—a home that has more appliances, more audio and visual equipment and more labor-saving gadgetry than ever before. Sales of audio-visual equipment, home computers and telephones have doubled in the last five years, with videocassette recorders and compact disk players currently hot items, according to Allan Schlosser, vice president of the Electronic Industry Association's Consumer Electronic Group.

Industry experts predict a fundamental change in how people live in and relate to the home as the electronics are tied together. The life of a house will increasingly revolve around one room that houses the entertainment section of a home—television or wide-screen TV, VCR, stereo system, personal computer, compact disk player—along with

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some of the functions of today's kitchen and dining areas. "We're moving away from the old centers of household activity, the kitchen and the fireplace, to a new center—the electronic hearth," Mason says.

According to Mason, that "hearth" will incorporate two-way monitoring systems, data bases, teleshopping, vacation planning and teletext news delivery.

As this room becomes more important, it will also get bigger and either be linked to or encompass much of what now is done in the kitchen. The esthetics of the kitchen will be improved, with appliances increasingly designed to look like cupboards, cabinets or furniture.

Changes in the American home must accommodate changes in the typical American family. By 1990, the average household size will be 2.45 people. With most women as well as men in the workforce, those in the house have less time to maintain it. Say goodbye to the four-bedroom house. Say hello to smaller, clustered houses with fewer but bigger rooms.

Who will be first to bring their homes into the electronic age? The same people who were first to own a VCR, to buy a home computer, to try a compact disk player. "They're not just techies or yuppies," says Donna Amrhein, senior analyst with the Yankee Group in Boston. "Their purchases are not necessarily income-dependent; a lot of these people are in the $20,000 to $40,000 income range." Their numbers could bring to 5 million the number of households with home brain systems by 1990.

These families will have to take to the new technologies before the rest of the population can be persuaded. "The technology is there but the desire to use it and the mass-production cost efficiencies are not," says Lane Jennings, research director for the World Future Society, a nonprofit association that serves as a neutral clearinghouse for ideas about the future. "People are not immediately sold on new ways of doing things. It's convenient to drive to the store and say hi to people at the bank, so why try to do it at home?"

According to Jennings and others, consumers will have to want to handle banking and shopping functions out of their homes for smart home systems to really catch on with the public.

Along with smart appliances, many companies are working on energy-efficient home appliances and climate systems. Dinh Company, a small manufacturer in Alachua, Fla., has designed a heat pump/hot water/central air conditioning system that runs on electricity produced by solar photovoltaic collectors. American Solar King, a Texas company with sales of more than $30 million last year, is going to introduce a central system through Sears, Roebuck that also relies on solar energy to provide heating and cooling. The company claims annual savings of 60 to 80 percent of a normal heating and cooling bill with the $12,000 to $15,000 systems.

Xanadu House in Kissimmee, Fla., comes complete with a TOPO robot. Architect Roy Mason says that eventually a house will do everything you could want servants for, from preparing breakfast for you to reading the news to you while you shower.

PHOTO: GRADY ALLRED

Nyle Corporation of Bangor, Me., which sells lumber-drying equipment, is expected to offer this winter a clothes dryer that uses a refrigeration system to produce warm, dry air. The dryer will cost about $600—roughly twice that of a conventional dryer—but Nyle claims it will run on 65 percent less energy, paying back the difference in cost in about two years. North American Phillips Lighting Corporation and other companies are selling compact fluorescent bulbs for household lamps that use one fourth the energy of a conventional bulb and last 10 times as long. They cost about $25, but Phillips says one bulb would save a New York resident more than $50 in energy costs during the bulb's life.

Standard appliances are also becoming more energy efficient, as the same microprocessor technology and sensors that allow them to work with a computer are used to make them measure water temperature and load size.

As houses get smarter they will take on other tasks. Computers could be programed so the home would not only monitor its heating system, but would identify a problem, communicate with other homes and contact the computer of a repairman. The appliances in it will get smarter as well, and your toaster could even tell you when the toast was done. And microcircuitry could virtually eliminate the need for repairmen—when something goes wrong with your dishwasher, a light may flash indicating the problem area, and you'll be able to replace the faulty circuit yourself.

A smart home could also direct the activities of a robot—or several robots—that would prepare meals and clean house while the two-income family is out earning two incomes. Several companies, including Androbot, Inc., of Sunnyvale, Calif.; TTC of Carson, Calif.; Hubotics, Inc., in Carlsbad, Calif.; and Heath Company in Benton Harbor, Mich., are developing robots for home use, and experts say simple robotic arms—that transfer clothes from a washer to a dryer, for example—could spread through the home around the turn of the millenium—which is all of 14 years away. ■

ECONOMIC DEVELOPMENT

Services And Sleeper Sites

The economy's move into services from industry is creating opportunities for less glamorous business locations.

By Manny Ellenis and Joseph Innace

There is little doubt any more that the U.S. economic structure is changing, making the transition from its traditional manufacturing base to one in which services and high technology predominate. The transition is offering opportunities to areas that seek to diversify their economic base by offering lower costs to the labor-intensive service businesses.

Statistics compiled by the Commerce Department illustrate the growth of the nation's service sector. Gross national product is climbing about 4.5 percent annually. Services are leading the way with a 9.2 percent annual pace, whereas durable goods and nondurable goods are charting 5.3 percent and 6.8 percent growth rates, respectively.

A comprehensive Labor Department study of the shift to services shows that since January, 1980, service jobs have represented the greatest source of new employment, surging five times as rapidly as manufacturing work. The very serious downside to this news, of course, is that more than 2 million manufacturing jobs have been eliminated.

Residents in almost 20 states now derive the lion's share of their total personal income from the service sector. While that has long been true in some states—New York, Florida, Maryland and Arizona, for example—new states have joined the ranks in the 1980s. California made the transition in 1983, Virginia and Texas in 1984. It is expected that several new states will report more personal income from services than manufacturing when the 1985 results are compiled.

Such statistics offer a sweep of national trends, but they give only part of the story. It is important to focus on individual areas to get a better sense of how the switch to services is developing.

San Francisco, New York, Los Angeles, Chicago, Dallas, Boston and Houston, for example, rate high on almost any decision makers' lists as places to conduct business.

Manny Ellenis is executive vice president of Development Counsellors International, New York, a firm specializing in economic development marketing. Joseph Innace is a New York-based business writer.

Birmingham, Ala., might not be thought of as an alluring spot for service companies, but they have been moving there. A sign of the city's vitality is the new Galleria shopping mall. Meanwhile, low costs help keep Appalachian Computer Services in Kentucky mining country. Below: President Ken James, Sr., with keypunch operators.

PHOTO: PATRICK PFISTER—PICTURE GROUP

A handful of glamour spots has considerable impact on a nationwide economic trend, but they are not doing it by themselves. There are sleeper areas throughout the country that have been surprising the economic development community with their newfound business potential. Frequently facing local depression because of dependence on heavy industry or agriculture, these areas are diversifying to attract services once confined to the big-ticket urban regions.

"There is a considerable movement of services to low cost areas," says Dennis J. Donovan, senior vice president, business location division, Moran, Stahl & Boyer, New York. "Businesses are finding places where new office location makes sound economic sense. For example, a financial services operation in New York could relocate to Ra-

leigh, N.C., cut its rent in half and save about 20 percent in labor costs."

The Raleigh-Durham-Chapel Hill area of North Carolina is a good example of an area where business leaders can save operating overhead, particularly in office leasing. The average rate per square foot in a Raleigh office building is a low $12, which probably contributes to the 90 percent average occupancy rate over the last two years.

Another motivating factor is lower labor costs in some lesser-known areas. Appalachian Computer Services started out 21 years ago in Harlan, Ky. Not long after, the firm moved to London, Ky., still very much in mining country.

Now white collar is joining black coal. In the last five years particularly, ACS has charted dramatic growth: Its customer base has doubled and gross revenues have tripled. Employees now number more than 1,200, compared with 200 in 1980. ACS workers involved in data entry are paid about $7 per hour, half of what a New York-based data keystroker might command.

Airport services can bolster the potential of a less glamorous city. But first, the city has to persuade the airlines to offer services there. Dayton, for example, had less than 60 daily flights from its airport three years ago.

Civic leaders knew that to offset some of the decline in Dayton's traditional manufacturing base, new businesses needed to be developed. Extensive air transportation services at Dayton's airport would help attract the new businesses.

So, air service had to improve. The city and chamber of commerce were instrumental in luring Piedmont Airlines to the Dayton airport, and the carrier now generates 87 daily flights. Currently, the Dayton airport counts almost 170 total daily departures.

Dayton has witnessed a nice ripple effect as a result of the Piedmont move. The airline has opened five regional telephone reservation facilities in the area, which added 225 people to Piedmont's 700-employee payroll in Dayton. The airline has also said it plans to employ about 1,000 people by the end of the decade. Another offshoot of the increased airport activity is the fact that Emery Air Freight designated Dayton its U.S. superhub. Emery has about 4.8 percent of the domestic $3.5 billion overnight mail and package delivery market.

Donovan cites New Jersey as one of the new players in attracting service-oriented business. That is attributable, he says, to the state's growing recognition as an office center. "It offers close proximity to the New York financial markets at much better office-space rates," he says.

New Jersey's economy has been based largely on heavy manufacturing, but due mainly to the sprinkling of new types of service operations, the state's economy has recently become more diverse.

"In the last 5 or 10 years," says Borden R. Putnam, New Jersey Department of Commerce commissioner, "manufacturing employment has dropped some 15 percent. Today it accounts for only about 22 percent of New Jersey jobs." Service jobs, on the other hand, have climbed steadily at a rate of 2.5 percent over the past 15 years, he says.

"The recession of 1981-82 was the most recent challenge to that growth in the service sector," continues Putnam. "But the rate of growth in service jobs during that recession was higher than in the previous years. Service firms are a whole new component in New Jersey's current economy. I'm not suggesting that service jobs are recession-proof, but they certainly have become a stabilizing factor in a state that is undergoing profound economic change."

Of course, businesses will not stay long in any community that offers few cultural and recreational amenities. To boost the livability of his city, Birmingham, Ala., Mayor Richard Arrington, Jr., reserves 15 percent of the city's budget for the arts. Destined to provide perhaps the greatest social and economic influence yet is Birmingham's $65 million thoroughbred racetrack, which will open in the spring of 1987. According to Arrington, the racetrack is expected to generate $20 million in tax revenue, create 5,000 jobs and lead to $50 million in local spending from visitors—accounting for a $273 million economic impact in the area.

Other states and cities are also discovering the stabilizing force inherent in service companies, and they are doing their best to attract them. The next few pages will take you to a number of these places. This is a picture of America's often overlooked, but surging, service-sector performers.

Confirmed Reservations In Oklahoma

In 19th-century America, Oklahoma was known as the Indian Territory. To this day, in fact, the state contains six of the country's 21 Native American reservations. Oklahoma is also home to reservations of an entirely different kind.

Along with the Cherokee, Creek and Choctaw Indian reservations, among others, you will find the Hertz, American Airlines, Avis and Howard Johnson's national reservations centers. These companies are playing an important role as Oklahoma makes the transition from being strong in oil refining and manufacturing to relying on a broad, service-sector-based economy.

"It's predicted that nationally the service sector will further outdistance the manufacturing sector," says Jess Metheny, general manager, Oklahoma City Industrial Authority. "We anticipate that Oklahoma City will follow this countrywide pattern."

Metheny says diversification will be Oklahoma City's business development strategy for the future. He stresses that the city's business composition already differs from its popular image.

"We're generally looked at as heavily oriented toward oil and gas exploration," he says, "but, in terms of employment, this sector is rather small—just 5,000 people." Service firms, on the other hand, make up the bulk of the Oklahoma City area's employment base, with 100,000 jobs. The manufacturing sector counts about 50,000 workers in the area.

The first major service-related entry into the Oklahoma City area came when Hertz, the big rental car company, moved in its data processing operation in the early 1970s. Not long after that, Hertz consolidated all its national reservations operations and moved them to the area. The result: employment for more than 2,000 people, and facilities that continue to expand.

"Our operation is now a stand-alone core for the company," says Robert J. Bailey, vice president in charge of Oklahoma City's operations. He explains that before Hertz's reservations and data processing facilities were centralized, they were scattered throughout 10 different locations.

Originally, most tasks were handled

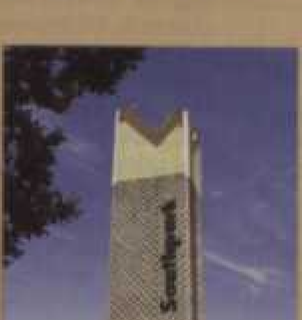
Pictured with Cajun delicacies are Chef's Michael Hall, Patrick Mould and Joseph Gonsoulin, gold medal winners of the Culinary Classic, held by Les Chefs des Cuisines de Acadiana.

A Cajun Recipe For Success
Lafayette, Louisiana

Spicy, flavorful Cajun cuisine has tempted palates across the nation. Everyone wants 'something Cajun!' Yet there is something else Cajun Country possesses — Lafayette's recipe for success, and it's being discovered by companies everywhere.

Lafayette has a variety of industrial and business parks to keep your business cookin', two publicly owned: Southpark, fully-developed for light manufacturing and distribution; and Northpark, for advanced technology companies, indicating Lafayette's emergence as the South's 'Silicon Bayou℠'. Excellent secondary and high school programs offer vocational-technical and honor curriculums, preparing many for the University of Southwestern Louisiana, the state's second largest university. Multi-modal routes coupled with a mild climate assure accessible transportation and at the junction of Interstate 10 and I-49, Lafayette is midway between New Orleans and Houston. Individual state income tax, property tax rates and energy costs are among the lowest in the nation.

There are over 16,000 students currently enrolled at USL.



In two years Southpark Industrial Park nearly doubled in size.

Over 750,000 square feet of office space is available.

Mardi Gras madness is celebrated by hundreds of thousands.

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ECONOMIC DEVELOPMENT

Services And Sleeper Sites

Hertz pioneered Oklahoma as a reservations center for its car rentals. Avis, Howard Johnson's and American Airlines followed suit.

PHOTOS: JEFF BUEHNER

out of Hertz's New York corporate headquarters, but the New York office now has just 500 employees.

"Now the bulk of the company's business activity occurs in Oklahoma City," Bailey says. "The computer hardware is all here." It is a good bet that more Hertz jobs will open up in Oklahoma City, because the corporation is cutting back some regional offices and preparing to handle their administrative chores in Oklahoma.

That continues to make good sense, according to Bailey and others at Hertz. Much of the company's reservations work is handled over phone lines, and telephone charges are very competitive compared with those in other areas.

Oklahoma is also in the central time zone and is almost equidistant from both coasts.

Hertz was followed by Howard Johnson's, which established its reservations center in Oklahoma City in the late 1970s. The HoJo operation employs a few hundred people.

Tulsa, Oklahoma City's neighbor in the eastern part of the state, is also cultivating its share of service-based firms.

Specifically, American Airlines' national reservations system, called SABRE, is now located in this city, as are Avis Rent A Car and Shell Oil's credit card operation.

The turning point for Tulsa, according to Rick Weddle, director, Tulsa Chamber of Commerce, came not by design but as a result of market conditions. In the spring of 1982, Tulsa's en-

ergy business collapsed, and the city was able to fall back on other businesses, particularly those in the data processing field.

"When the energy business turned," says Weddle, "we found that Tulsa needed some other mainstays. Data processing and aerospace companies have been pulling the city through."

One of those mainstay companies is MPSI, a firm that sells computer software used by retail chains wanting to develop marketing and business-location strategies. The company grew from a one-man computer-services operation 15 years ago to a 380-employee worldwide operation, with total revenues last year of $25 million. The Tulsa headquarters employs about 250.

"The labor productivity is very high here," says Ron Harper, founder of MPSI, "and the city is very big in computer services and data processing, which makes for a sizable pool of skilled labor."

Harper does not believe he could do much better outside the Tulsa area. "We pay rent here that is very competi-

Continued on page 46B.

MANAGING YOUR BUSINESS

The Payroll Cost Burden

Rising Social Security taxes are a leading threat to small business' role as a job-creating engine.

By Andrew J. Sherman

Small businesses have been responsible for 5 million of the approximately 7 million jobs created in the economic recovery that began in 1981, says the Small Business Administration. Small business leaders say that performance might have been even better—and perhaps could be better still, in the years ahead—if not for the impact of rising Social Security costs and the continuing expense of federal and state laws and regulations affecting payrolls.

These burdens, they say, reduce the ability of small firms to compete with large ones. The competitive disadvantage has consistently been high on the list of concerns voiced by small business owners at state conferences leading up to next August's White House Conference on Small Business.

Karen Schuldt, president of Robert R. Schuldt and Associates, a Fairfax, Va., consulting firm that specializes in personnel issues, has a personal horror story to tell about payroll complexities that spell increased costs for small employers.

Schuldt, who must administer a payroll for 12 employees, recently spent five hours on a Sunday working on an Internal Revenue Service inquiry about a 45-cent inconsistency in her reported payroll tax.

Says Schuldt: "I charge $100 an hour, so that's already $500 down the drain on this matter, and I've had to talk to my accountant about this, so I'm probably going to get a bill from him as well. I've written the IRS and said, 'Don't you think 45 cents is ridiculous? I'll write you a check for the amount.' They responded that they're trying to get their files in order, that many companies are involved, many of which owe thousands of dollars. Fine, let them go after those companies, not the ones owing 45 cents!"

Schuldt is not alone in her frustration. Frederick Luber, chief executive officer of Super Steel Products Corporation in Milwaukee, figures it costs him $900 a year per new employee to cover contributions to the Wisconsin unemployment insurance system.

Andrew J. Sherman is a third-year Washington law student with special knowledge of small business issues.

Karen Schuldt is a personnel specialist with 12 employees. She favors a subminimum wage for special situations, like hiring high school students so that they can have a learning experience.

PHOTO: SUSAN WONAR

Henry Schwartz, comptroller of John King, Inc., a national textile products distributor based in Los Angeles, administers an annual payroll of $400,000 for 22 employees. He says it costs his company, in staff time alone, $15,000 a year to handle government-inspired payroll paper work, including Social Security, unemployment compensation, salary withholding, extra benefits and workers' compensation reports.

Luber, who, like Schuldt, is a member of the White House Conference's payroll costs task force, also views the paper work in administering payroll taxes as oppressive. "You almost have to be a large company to cope," Luber says. "It's my presumption that every small business owner has violated laws and regulations, because there's no way he or she can conform to all those rules and still have time to run a business."

Time lost is a major concern, says Schwartz: "The red tape is atrocious. I have spent hours on the phone some days just trying to get through to the right government employee to ask a question."

Common themes have emerged in recommendations concerning payroll costs and related regulation at the first 20 state conferences, which are being held at the rate of five a month. They are expected to be among the top issues discussed at the White House Conference itself next August.

One of the most prominent has been demand for repeal of the Davis-Bacon Act. This 1930s law requires workers on a federally funded construction project to be paid wages at least as high as those determined by the Labor Department to be prevailing in the area of the project. Because most small business owners cannot afford to pay the prevailing rates and still tender a competitive bid, they are effectively excluded from bidding, and that in turn impedes the hiring of youth.

White House conferees are not the only ones concerned with the effect of the Davis-Bacon Act. A July, 1983, Congressional Budget Office report said that significant reform or repeal of the act would save the federal government more than $1 billion a year.

The state conferences have voiced concern over proposals for a new type

The Payroll Cost Burden

of wage regulation, in which pay levels would be set under government formulas based on various occupations' "comparable worth" to society.

Small business owners believe wages should be determined by market forces and performance, not by government intervention. Schuldt observes that "the comparable worth issue is very sensitive to small business—we're scared to death of it. It would force small business owners to keep up in local salary markets that are dominated by large employers. If comparable worth legislation were passed, it would kill many small businesses because it would force us to pay the same rate for a secretary that IBM is paying."

Luber agrees: "Comparable worth is a scary situation. The rule ought to be, 'Pay the productive worker and replace the nonproductive worker.' To do otherwise is to destroy everything that makes this country great."

The small business community is pushing for the reform or repeal of the Service Contract Act, which imposes on some government bidders wage restrictions similar to those of the Davis-Bacon Act.

Many small business leaders are calling for a stronger program to allow for a subminimum wage for student and entry-level employees, especially for summer jobs. Says Schuldt: "Small businesses should have the opportunity to go subminimum wage for special situations, like hiring high school kids so they can have a learning experience."

Two federal programs encourage the hiring of entry-level workers. The Targeted Jobs Credit program offers employers a tax credit of $3,000 in the first year of employment and $1,500 in the second year for employing workers in 10 targeted groups. The Fair Labor Standards Act allows employers to pay up to six full-time students 85 percent of minimum wage for part-time work in certain industries.

A stronger youth subminimum wage program would create, according to Labor Department estimates, 400,000 new jobs over the next three years, many of them in small businesses. Proposals currently before the Senate and House labor committees would allow for a differential of 75 or 80 percent of the current minimum wage for newly hired summer employees aged 16 to 20.

Another important area in which small business leaders are calling for reform is the Social Security payroll tax

Frank Mason, chief executive officer of the Mason Corporation, says the Social Security payroll tax system is unfair to small business, especially as rates continue to escalate.

PHOTO: DAVID VALDEZ

system. Under the current structure, employers must make matching contributions to the trust fund, as well as incur the administrative costs of calculating, withholding and remitting these federal tax revenues to the Internal Revenue Service.

Virtually every state conference has recommended that ceilings on employer contributions be frozen and that the payroll deposit and reporting system be updated and streamlined.

Frank Mason, chairman and chief executive officer of the Mason Corporation, a Birmingham, Ala., manufacturer and distributor of home improvement and light commercial products, feels that small business is unfairly treated by the current Social Security tax structure.

Says Mason: "When you look at what the employee is paying plus what the employer is paying in Social Security taxes, it's really taking a lot of money out of small businesses.

"Payroll costs have increased greatly due to escalations in Social Security. When it first started out, the cost was 1 percent per year each from employee and employer on the first $3,000 earned—$30 from the employee and $30 from the employer. Today, the maximum pay deduction has jumped to $3,000 per employee, and, of course, that is matched by the employer for a total of $6,000."

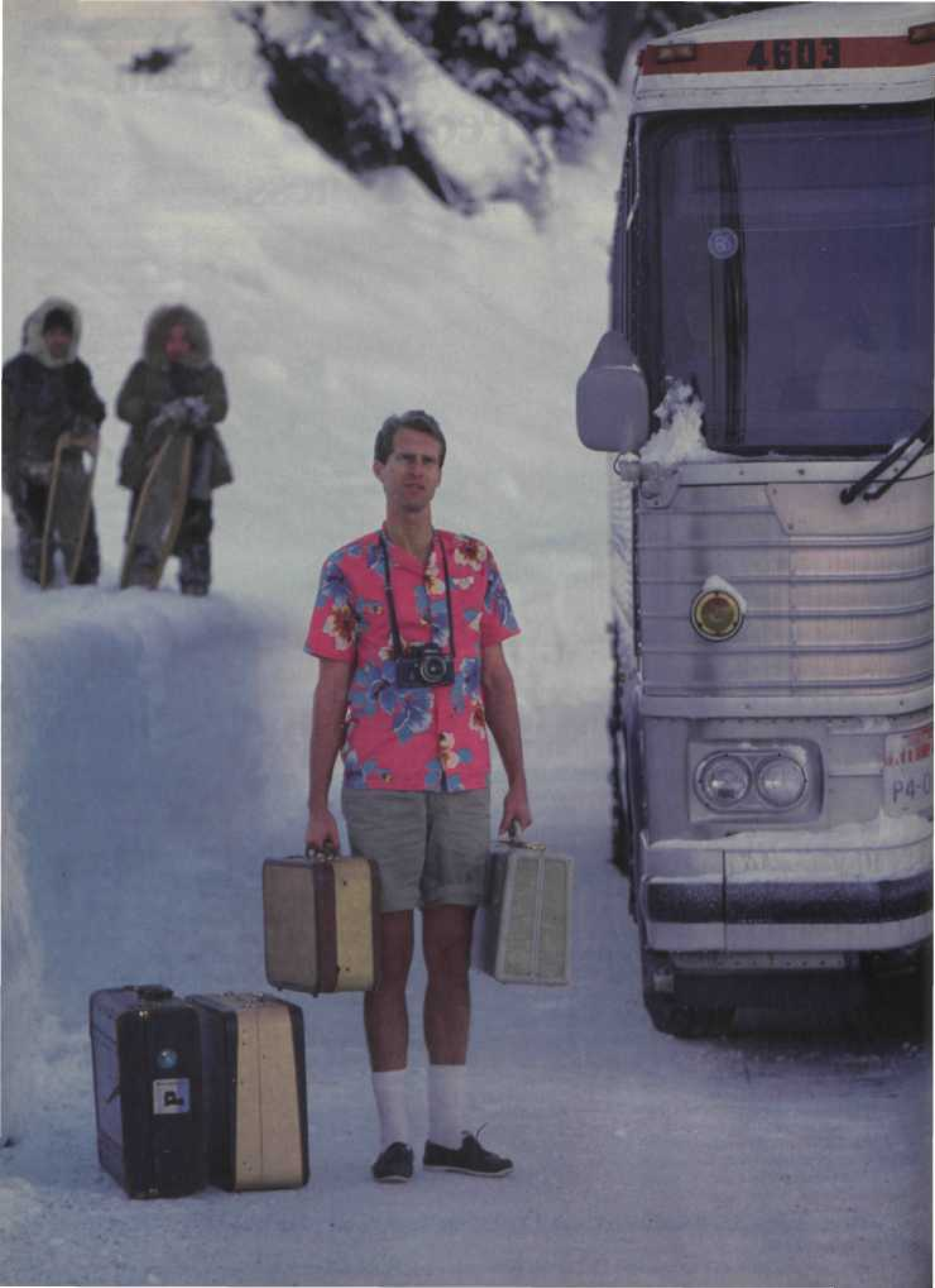
The deposit system is particularly irksome to small business. Schuldt would like to see this problem resolved, starting with a recommendation at the 1986 White House Conference. "Once my payroll taxes hit $3,000, I have three days to get the money into the bank," she complains. "That figure is ridiculous—it should be adjusted to $8,000 or $9,000, because $3,000 in the middle of the month is difficult for a small business to come up with."

Worry about small businesses' ability to stay competitive is behind strong support to keep the present system of 401(k) retirement saving plans and to achieve parity with large firms in the deductibility of health benefits.

Bigger companies have more health deductions available because they participate in large plans. Health benefits for officers of corporations are deductible, but those for sole proprietors are not. Small business people wonder why.

The 401(k) issue is expected to get attention at the White House conference, especially since various tax reform proposals would cut back severely on the plans, which allow employees to defer taxes on 401(k) contributions. Cutbacks would severely restrict small business ability to provide pension and benefits plans comparable to those of large companies, says Michael J. Crosley, district group manager and employee benefits specialist for State Mutual Life Assurance Company of America.

"The main reason small businesses support a 401(k) plan is to attract and retain middle and top level employees," Crosley says. "If the current maximum contribution of $30,000 is greatly reduced, then top employees may go elsewhere to a larger company offering other benefits." ■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MANAGING YOUR BUSINESS

Casting Stoves Upon The Waters

By Nancy L. Croft

What started as a tour of the company headquarters planned for 200 Vermont Castings stove owners is today a customer appreciation country fair for more than 10,000.

As Bill and Stella Sharp boarded the plane in Los Angeles, they anxiously wondered whom they would meet at the family reunion in Vermont. They didn't know a soul there. But once they arrived in the small town of Randolph, they felt right at home. They were welcomed into a gathering of thousands of friendly people, related not by blood but by ties to a company and its products.

It was a two-day party, with country musicians, traditional summertime picnic food, clowns and excited children running through the grass.

Who are these people and why do they come to Vermont from as far as California to enjoy a single weekend with strangers? As a group they make up a very special customer base for a company that provides one of the essences of secure, happy family life—the warmth of a glowing hearth. These customers are so loyal they send the company holiday cards and letters. And some return every year to the company's reunion.

All are owners of cast-iron wood- and coal-burning stoves. The host of the annual party is Vermont Castings, Inc.

What started out in 1980 as a proposed customer appreciation coffee-and-doughnut party for 200 turned out to be a bash for 3,000. The following year attendance tripled at the Owners' Outing, which has since evolved into an exclusive, but expansive, country fair.

Last August 11,000 customers congregated to celebrate the company's 10th anniversary. The old-fashioned New England picnic was complete with quilting parties; a ham and bean dinner sponsored by the local chamber of commerce; pie-baking, corn-shucking and watermelon seed-spitting contests; horse-drawn carriage rides; tours of the foundry; musicians playing in a bandstand; and a fireworks show to bring the day to a close.

The company spent $50,000 on the event.

"We try to give people a real feeling and flavor of Central Vermont and the somewhat rural lifestyle that is prevalent here," explains Steven Morris, Vermont Castings manager of domestic marketing.

The community is happy to help in creating this feeling. Though the outing itself is free to stove owners, many charity organizations sell local specialty dishes and set up bed-and-breakfasts for customers who could not get a reservation at one of the area's inns. Richard Clayton, Vermont Castings' president, estimates the outing generates $250,000 to $300,000 for the region around Randolph.

PHOTOS: HANSON CARROLL

Vermont Castings, which is soft on sell, uses the outing as a way to maintain a personal relationship with its customers. Any sales pitch at the affair is done quietly through product displays and educational seminars on how to get the most from the company's stoves.

The company does place magazine ads during the year, but it knows the value of a good reputation. And it knows the customers will pass the word. "We find that a very high percentage of sales come from word-of-mouth referrals from happy owners," says Morris.

Vermont Castings originated with brainstorming sessions over coffee between Duncan Syme, who became the company's vice president, and his brother-in-law, Murray Howell, who became president—a position he held until he died in 1983. Syme had tried to buy a solid-fuel stove that would be as attractive as a fireplace and provide an economical source of heat during the energy crisis.

Realizing that he could not find a stove that fit those specifications, Syme, who has a background in architecture, designed one to his liking. Howell, a businessman, helped Syme build it, and they were so pleased they decided to build more. Interested buyers lined up, and the partners started adding employees. The company has since grown to 300 employees at its three facilities in the Randolph vicinity.

In planning the company, Syme and Howell agreed to treat their customers as they would like to be treated themselves. With those basic objectives, the company began marketing its cast iron stoves through direct mail.

Today the company, with three stove models that bring in $25 million in sales annually, says it is America's largest wood- and coal-stove manufacturer. In addition to its direct mail, the company distributes to 350 dealers in the United

When customers buy a Vermont Castings stove, they become family—and even get to go to a family reunion.

The Vermont Castings party includes a low-key product display—at customers' request. This year's daylong outing was complete with clown-face painting, watermelon seed-spitting contests, quilting parties, homemade delectables from local groups and a fireworks show. Store owners say the company embodies the American spirit.

States and Canada and 400 dealers in Europe.

But despite the big-time dealer relationships Vermont Castings has cultivated, it knows that the people who really matter are the customers enjoying the warmth from their stoves.

The Sharps, both retired Los Angeles city schoolteachers, had owned a Vermont Castings stove for only seven months when they decided to go to the company outing in 1984.

"We were extremely impressed with Duncan Syme—we corresponded with him," says Bill Sharp. "And the staff took us under their wings before they even met us. We spent more on the trip than we did on the stove. Most people thought we were nuts to fly that distance." But he says that first trip—the Sharps felt they could not afford to go last August, but they hope to go this year—is fondly remembered. A collage of photos taken at the outing adorns a wall next to a wood stove in their weekend cabin.

Morris says it is not unusual for customers to bring photos of their stoves to the outing to show to the staff. "People develop a very emotional tie to their hearth. You wouldn't develop that same attachment to a refrigerator."

Among those at last August's affair were Henry and Ruth Bach, who drove their motor home from Florida, incorporating the outing in their plans to attend their caravan club's rally in Lake Placid, N.Y. Though they could only fit a morning in Randolph into their tight schedule, Henry Bach says he was not about to pass up the picnic.

"In America today, a manufacturer produces a product, you purchase it, and that's the end of your association with that manufacturer in most cases," he says. "Not so with Vermont Castings. Once you have bought their product, you become a member of their family."

One way Vermont Castings keeps customers abreast is through a tabloid-style newsletter. Every owner receives a lifetime free subscription to *Vermont Castings Owners' News*, which is full of company activities, dealer profiles, stove operating advice, readers' letters, essays on life in Vermont and recipes like "The Right Way To Cook Milkweed Buds."

Bill Sharp attributes customers' enthusiasm to the company's pervading spirit. "Here I sit with a Toyota truck, a BMW German-made car and appliances made in other countries, but that stove is American," he says in one breath.

Owners from other countries must also be impressed with Vermont Castings' American spirit. "I don't know how they show up," says Morris, "but just about every year we've had visitors from New Zealand, the United Kingdom, Germany and Holland."

Karen Hurff, of New Jersey, thought she was the winner in the pie-baking contest's berry division last August until she was ousted by a late entry. She wrote the company a thank-you letter, anyway. "I will always remember it [the outing] as long as I live," she wrote. "And when I get disgusted with people and surroundings and fear for my sanity, I will remember that people and places like you and yours still exist.

"By the way, you make a real nice stove, too!" ■

PERSONAL

For Your Tax File

Exercise a little care to avoid being dunned by a computer about interest; mixed news on auto recordkeeping.

By Gerald W. Padwe, C.P.A.

Heading Off Trouble In Mortgage Interest Reporting

ILLUSTRATION: CAMERON GERLACH

One of the less publicized provisions of the Deficit Reduction Act of 1984 requires financial institutions to report to the Internal Revenue Service the amount of mortgage interest received annually, by taxpayer number.

The IRS has been matching more than 90 percent of information-reporting documents to the numbers given by taxpayers on their returns. That will now also be true of mortgage interest payments. You probably have already received a transcript of payment from your financial institution, complete with details of how each payment was applied (interest, tax escrow, principal, insurance). The same information will also go to the IRS.

Unfortunately, the nature of mortgage payments may well impose discrepancies between what you feel you have paid and what your bank reports to the IRS.

For example, many borrowers made a January, 1986, payment at the end of December, 1985, to accelerate the interest deduction by a month. Their financial institutions may not have received the payment until January and, if so, will almost certainly report it to the IRS as 1986 interest.

The borrowers will claim the interest deduction for 1985, but there will be a mismatched financial institution report to the IRS.

Also, if you are calculating the interest yourself, you will run into the problem of varying interest amounts. For a self-liquidating mortgage, each month's payment stays the same but contains a bit more principal and a bit less interest than the payment of the month before.

If you accelerate your January payment into December, you should attach a reconciliation to your return explaining this fact. That could head off a computer-generated notice from the IRS suggesting that your deductions are overstated.

And trying to correspond with a computer is, all too often, a frustrating experience.

Gerald W. Padwe is national director-tax practice for Touche Ross & Co. For Your Tax File *is an information service for readers. See tax and legal advisers on specific cases.*

Car Recordkeeping Revisited

If you commute to work in your company's fire truck or tractor, you no longer have to worry about keeping "contemporaneous records" of this personal use of the vehicle. That's the good news.

It was just about a year ago that employers, employees, the Internal Revenue Service and Congress were debating IRS-proposed regulations that would have required voluminous recordkeeping when company cars were used partially for personal purposes and employees' personal cars were used partially for business purposes.

The IRS, trying to make your life easier, has come up with complex new regulations that are more than 100 pages long. That's the bad news.

Some highlights:

- Generally, vehicles used only for personal purposes, and those that, because of their design, are unlikely to be used for personal purposes (fire engines, for example) are exempt. Certain vehicles employed in farming or for which the only personal use is commuting are also exempt. Most other vehicles will require records, which need not be kept "contemporaneously" but must be kept on a "regular" basis.
- Personal use of company cars generally has to be counted as employee pay if the vehicles are used for any significant personal purposes (including commuting). However, income may be determined through one of several methods. Employers can impute wages based on what a third party would charge for the vehicle use. They can use a "lease value" table published for this purpose by the IRS. Employers can charge 21 cents per mile for personal use of vehicles worth less than $12,800 or choose a special valuation of $3 per round trip for vehicles with no personal use other than commuting.
- If an employer imputes wages to employees, the employer must withhold both income and payroll taxes. Employers may elect not to withhold any income tax on wages imputed for car use, but employees must be notified, and the employers must withhold payroll taxes.

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Services And Sleeper Sites

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tive, and I see no reason for a move."

Tulsa is also the home of Hertz's competitor, Avis. The Avis operation employs almost 600 people, 150 of whom were added less than two years ago. The company may soon be moving into a bigger building.

The biggest private sector employer in Tulsa is American Airlines' worldwide reservations and aircraft maintenance center, which provides jobs for 6,500 people.

"This operation was moved out of Manhattan," says George Riley, American Airlines' general manager, "because we wanted a central United States location, and the telephone rates are very favorable."

American's SABRE computer operation acts as the reservations nerve center. There are four other regional reservations locations, but SABRE in Tulsa links everything together. It is, according to Riley, the largest nonmilitary computer facility in the country. Still, the airline is getting ready to expand its reservations and data processing hub in the area. A new $30 million computer installation will be completed late this year.

Like Oklahoma City, Tulsa is pursuing a diversification model for the city's economic future.

"We're focusing on growth businesses, the database-oriented firms like American Airlines and Avis, which can create considerable numbers of jobs," says Weddle.

With such companies already on site, Weddle says, the city will be able to piggyback the success it has had in the data processing field and lure even more firms.

Another Oklahoma service-sector success is the port of Catoosa on the McClellan-Kerr Waterway off the Arkansas River. Catoosa, 940 miles inland from New Orleans, enjoyed a 21 percent increase in business when it moved almost 18 million tons of cargo in 1985.

Oklahoma Gov. George Nigh has made economic development his No. 1 priority.

Ironically, the state's biggest asset was once its worst enemy: geography—the misperception that Oklahoma was too far removed from some major markets. But that was long ago.

"Our geographic location is clearly a decided advantage for expansion of service-sector companies," says Gov. Nigh. What was once considered the middle of nowhere is now highly valued as a central location.

Baltimore—A Services Harbor

Harold Adams, president of RTKL, a major architectural firm headquartered in Baltimore, gets right to the point. "This firm was founded in Annapolis, Md., 40 years ago and moved to Baltimore in 1960. In my time here, which goes back to 1967, I've never seen economic growth like this, particularly as an office and financial center."

Adams says Baltimore is making rapid progress now as a result of the upgrading of the downtown waterfront. "The Inner Harbor development project was the real spark," says Adams. "It triggered increased convention, tourism and hotel activity, all of which is paving the way for even broader service-sector growth."

Still the fourth largest American port in offshore commerce, Baltimore has been fast becoming a leading convention, office and medical center.

In the early 1980s the city transformed 250 acres of decaying waterfront downtown. The focus of this renovation is a $29 million shopping and dining complex, Harborplace, which attracts more than 20 million visitors annually.

"The development of the Inner Harbor has spurred a billion-dollar office boom," says David Gillece, director of economic development for the Greater Baltimore Committee, an economic development entity funded entirely by the city's business community.

What is more, Baltimore is now attracting trade associations and financial institutions, lured by operating costs running as much as 50 percent lower than those in New York.

Adams, whose architectural firm has offices in Dallas, Washington, and Fort Lauderdale, Fla., says that the company has 410 employees, about 300 of them at the Baltimore headquarters. He says the firm has doubled in size in just five years, up from 200 employees in 1980. And if Adams is reading Baltimore's resurgence correctly, there should be more room for expansion.

"In fact, I think we're just beginning to see a tremendous explosion in banking here," Adams says. This should mean even more work for his firm and for a number of other architectural outfits that have been drawn to the city in recent years.

Baltimore's Inner Harbor, as seen from a Goodyear blimp, features marinas, the National Aquarium, other tourist exhibits, and a selection of shops and restaurants.

PHOTO: T. MICHAEL KEZA

According to Adams, office buildings under construction should have no problem in getting tenants. "The Union Trust building is an example of a successful project that is already benefiting from a surge in the service sector," says Adams. "Eighty percent of the 375,000-square-foot space was spoken for even before final completion."

Two other major office buildings are on the horizon. Still on the drawing board is the Clark Manekin. The 210,000-square-foot Redwood Tower is beginning construction. "Both of these are well located and should also prove to be successful ventures," Adams says.

Law firms "have exploded here in the last couple of years and have been a boon to the city's office space business," says Adams. Accounting firms and insurance companies are also renting space in the city, he adds, pointing to Baltimore's proximity to the Washington market.

"Just look at a map, and you will see that our beltways are only 18 miles apart," says Gillece. "Amtrak service takes just 28 minutes downtown to downtown, and the Baltimore-Washington International Airport is only eight miles from our downtown area."

Convention groups are also showing a stronger preference for Baltimore than ever before—last year Baltimore hosted a record 76 conventions. There are 13 major downtown hotels offering more than 3,800 rooms, and most are within walking distance of Harborplace and its 35 tourist attractions.

"It is important to note," says Gillece, "that 70 percent of our conventions are national groups, such as the American Legion, which held a convention of 19,000 last year." Gillece expects the city to break all previous convention and visitor attendance records this year.

"More importantly, we're only at the threshold of our Inner Harbor development impact," says Gillece. "It's generating momentum in creating service sector jobs."

Adams, whose firm has completed downtown rejuvenation plans for 18 U.S. cities, says the time is ripe for Baltimore to reap some of that harvest.

"All of the growth at one time was happening in Houston, Dallas, San Francisco and so on, but it's not confined to these areas any longer," he says. "There are some very good markets for service companies in a host of cities that normally wouldn't come to mind."

Making Up For Lost Time

Birmingham, Ala., has long struggled to diversify, but until recent years it was not as successful as other sun belt cities in luring service businesses. Failure to spread the word far enough kept the city largely dependent on its heavy industry from the late 1960s through most of the 1970s.

But times are changing rapidly. By the third quarter of 1985, Birmingham's unemployment was 6.8 percent, compared with a national rate of 7.2 percent. Behind that encouraging statistic is a successful shift to telecommunications, distribution, medicine, publishing, engineering and utilities.

Anticipating plodding growth in the manufacturing industries, city officials mapped out an initial diversification plan in the late 1960s to boost growth potential in nonmanufacturing business. But the plan did not begin to bear fruit until almost 10 years later.

"It wasn't until we made it a bona fide marketing effort that we started to see some real progress, but from the start the strategy was designed to break the city out of its manufacturing mold," says Donald A. Newton, executive vice president of the Birmingham Area Chamber of Commerce.

The marketing approach worked. Today, of the community's total work force of about 365,000, only 54,000, or 15 percent, work in manufacturing. Services, on the other hand, employ almost 80,000 people.

"Between 1970 and mid-1985," says Newton, "the city has charted a net gain of 39 percent in employment, even though there was a net job loss in manufacturing. Nonmanufacturing now accounts for 85 percent of the Birmingham area's jobs."

The area's biggest employer is the University of Alabama at Birmingham, which has nearly 11,000 employees. Other major employers in the area include the Southern Research Institute, South Central Bell, BellSouth Services, Alabama Power Company and Rust International, a company engaged in engineering services.

A boost is anticipated this month when Birmingham's $300 million Galleria shopping mall and hotel complex officially opens. Some big-name retail chains, such as Macy's, will open their doors to shoppers.

Services And Sleeper Sites

Many Happy Returns In Fresno

The Fresno, Calif., IRS office, frenzied at tax time, doubles its normal staff of 2,000 for the April avalanche of returns from Hawaii and California.

PHOTO: IRS PUBLIC AFFAIRS OFFICE

Sometimes it only takes one government agency to bolster an area's agricultural and manufacturing economy with service industries. It can do this not only by implementing legislation but simply by moving in.

Directly and indirectly, through a commercial ripple effect, an agency can drastically change the face of an area's business. Perhaps there is no better example than Fresno, Calif., and its happy union with the Internal Revenue Service.

A dozen years ago, the IRS chose the wine country for its Western regional processing center to handle all income tax returns from California and Hawaii.

"The IRS move into Fresno provided a strong labor base in office work for subsequent growth in Fresno's service sector," says Daniel K. Whitehurst, Fresno Economic Development Corporation president. Although Fresno County is still one of the nation's major agricultural counties, ever since the IRS move, other nonagricultural, service-oriented businesses have followed, expanding the area's potential and population. At the time the IRS established its regional center, Fresno had about 200,000 residents. That figure has since doubled, due largely to the private sector explosion detonated by the federal agency.

Fresno is not planning to become another Silicon Valley. "We're not hung up on chasing high tech business," notes Whitehurst. "A lot of that business is going offshore anyway. Instead, we're developing a nice mix of targeted service industries in areas where we already have a solid base, such as insurance, finance, real estate, claims processing and other nonagricultural businesses."

The IRS move was only the beginning. The post office had to expand to accommodate the IRS mail load. The anticipated avalanche of tax returns forced the postal service to enlarge its facilities and hire 1,600 employees. The 150,000-square-foot operation boasts optical character readers for maximum speed processing. In time, this high-capacity post office attracted more service-oriented business to Fresno and made the city a major mail-processing center.

Company officials often cite two key reasons why they moved to Fresno: It is geographically well-positioned—right in the middle of California—and the mail service is topflight.

The Equitable Insurance Company located a claims processing facility there in 1976, which initially employed 200 people but has added 300 more in the past six months. Another insurance carrier, Liberty Mutual, also has a sizable operation, with 320 employees.

A Leader Of The Pack

Despite its strong association with tobacco and other industries, including textiles and furniture, as much as 22 percent of the Winston-Salem, N.C., local employment is in the service sector.

"These industries are not providing as many jobs as they were in the past, and there has been a leveling out in employment," says J. David Wansley, director of the city's Economic Development Group. "The area has responded with a diversification strategy."

Among the new employers it is trying to attract are nonprofit trade organizations, traditionally headquartered in the high-rent districts of New York and Washington. According to Winston-Salem officials, many of these groups face 100 percent rent increases as their current leases expire.

"Brand new class A office space is available at $12 per square foot in Winston-Salem, compared with $35 to $50 per square foot in Manhattan," says G. Dee Smith, executive vice president of the R.J. Reynolds Tobacco Company.

Winston-Salem is the South's fourth largest corporate headquarters area, following Dallas, Houston and Atlanta. New office construction is at a record high in the region, with a total of 500,000 square feet on the way, including the $100 million One Triad Park downtown project featuring an 18-story tower flanked by four other office buildings. And three new parks are being built in outlying areas of the city.

Some big firms are moving key operations to Winston-Salem and building their own facilities. American Express, for example, is constructing a $60 million, 300,000-square-foot office building and will centralize the bulk of its green card credit service activity in Winston-Salem. This project began in January and will eventually employ 2,000 people, handling everything from credit card applications to billing.

Wansley points out that the Wachovia Corporation, the second largest bank in the Southeast, is also headquartered in Winston-Salem, as is Piedmont Airlines.

"This area is more widely recognized now as a corporate headquarters center," he summarizes. "This position plus the competitive space rates are clearly helping us diversify and grow even more service-oriented."

Franchising's Future

Where will the fastest growth be in this fast-growing economic sector? John Naisbitt provides some answers.

By Meg Whittemore

Franchising's growth—from insignificance 35 years ago to a phenomenal one third of all retail sales today—will continue unabated for the next 25 years. As early as the year 2000, franchising will account for half of retail sales.

Those predictions from futurist John Naisbitt in a study by the Washington-based Naisbitt Group are good news not only for franchisors, but also for the increasing numbers of entrepreneurs who have been attracted to franchising as a way of owning their own businesses with minimal risk.

Naisbitt, head of the Naisbitt Group and author of the best-sellers *Megatrends* and *Re-inventing the Corporation*, predicts that "sales by business format franchises will likely reach $1.3 trillion in the year 2010," a whopping increase over last year's $140 billion-plus. (Business format franchises are those in which a franchisor defines the format of a business operation, and exclude product franchises—automobile dealers, gasoline service stations and soft drink bottlers.)

The Naisbitt Group study says this startling growth will take place as a result of demographic changes already well along and likely to accelerate.

According to the study, commissioned by the International Franchise Association, five emerging trends will buoy franchising over the next 25 years:

- The transition from a manufacturing-based to a service economy. Franchising has long been at the forefront of the service sector.
- Consumer preference for convenience and consistent quality—principal strengths of franchising.
- A rise in consumer demand for specialty items. The demand has spawned a host of new businesses aimed at the specialized market, and most of those businesses are franchised.
- The increasing numbers of women and minorities in franchising. This trend will usher into the franchise arena new markets, new products and a largely untapped management pool.
- Franchising abroad. Franchising is quickly becoming an export business.

Meg Whittemore is a Washington-based free-lance writer.

Trend-spotter John Naisbitt, head of the Naisbitt Group, is author of the best-selling Megatrends. *With his wife, Patricia Aburdene (left), he has written* Re-inventing the Corporation. *Naisbitt's group predicts strong growth for franchising, particularly in services.*

PHOTO: RHODA BAER

The Naisbitt Group study focuses on the top 10 business format franchise groupings today, projects their growth through 1990 and uses the projections to suggest the size of the market in 2010.

It says the biggest percentage increases will be seen in five fields: construction and home services, recreation, business services, nonfood retailing and fast food.

Fast food restaurants have by far been the most successful category of franchising. With 1985 sales of $49 billion and projected 1990 sales of $86 billion, restaurants are, says Naisbitt, "the granddaddy of the franchise business." The names run into the hundreds: Mr. Burger, Whataburger and Burger King; Big Boy and Big Daddy's; Yummy Yogurt, Everything Yogurt and International Yogurt; Marco's Pizza, Domino's Pizza and Pizza Hut; Chicken George Chicken, Church's Fried Chicken and Chicken Delight. . . .

Over them all stands the most famous, McDonald's Corporation, of Oak Brook, Ill., whose history typifies restaurant franchising as a whole. Founded in 1955, the chain had 1,500 outlets 15 years later. Today, after an additional 16 years, McDonald's has 8,503 units, 500 of them opened in 1984. In 1985 the company opened new outlets at the rate of one every 12 hours.

Naisbitt predicts the fast-paced growth trend exemplified by McDonald's will not slow down, but some franchise experts warn of an impending shakeout in the franchise restaurant segment. "Domestic saturation is becoming a problem and may soon be the new reality," says Natalie Blacher, manager of strategic services for Burger King Corporation, of Miami. She says companies will increasingly turn toward international markets to sustain long-term growth.

Not everyone shares Blacher's pessimism. Many within the industry refer to the oft-quoted maxim of McDonald's founder Ray Kroc: "Saturation is for sponges."

Ethnic foods are a growing consumer preference. "Burgers will still gain the lion's share, but ethnic foods are where it's at, as far as fast growth is concerned," says Gilbert Simon, legal coun-

sel for Wendy's International, Dublin, Ohio. The number of franchised pizza outlets rose 26 percent from 1983 to 1985. During the same period, franchises offering Mexican food increased 22 percent. Hamburger franchises, by contrast, increased 12 percent.

In a retail market characterized by fierce competition for market share, more and more nonfood retailers are turning to franchising to increase their revenues. Nonfood retailing encompasses a broad range of businesses, including drug, cosmetics, hardware, consumer electronics, clothing, pet and book stores. By 1990, franchise sales in this category will reach $34 billion, compared with almost $19 billion in 1985.

For the most part, says Naisbitt, a consumer trend toward "boutique" shopping coupled with demand for convenience will put retail franchisors—which provide specialty shopping in many locations—in a strong growth position.

One exception, Naisbitt says, is the retail computer industry, which is headed for a shakeout. "In the end," he says, "a number of independent operators will be eliminated." Computer retailers have already shifted their emphasis from the home to the business market. "Intensified competition," Naisbitt says, "will result in the closure of many independent retailers or their conversion to franchising."

James Edgette, executive vice president of franchisor Entré Computers, Inc., Vienna, Va., agrees. "The industry's position is similar to that of the automotive industry in the 1920s, before manufacturers began to consolidate in the 1930s," he says. But, he adds, "The dominant players of today will stimulate computer franchise growth over the next 25 years."

Of franchise areas that will see strong growth, business services will benefit most from the economy's shift to information supply and other services, according to the Naisbitt Group study. The Commerce Department says that "an ever-widening array of business firms are relying on franchised establishments for printing and copying, tax preparation, accounting and educational support."

Several major trends are occurring in this area. New technology has created a greater demand for temporary workers with specialized skills. The temporary services industry is the third fastest growing industry in the United States, according to Alexander Sussman, executive vice president of Dunhill Personnel System, Carle Place, N.Y. The industry places more than 4 million people annually. "The temporary services 'payroll,'" he says, "has grown from over $540 million in 1970 to more than $6 billion today." Given the current rate of growth, Sussman anticipates that the figure will exceed $108 billion by 2010.

Bonny LeVine, vice president of PIP, a printing franchise, says women are a major source of new franchisees.

PHOTO: STEVE SMITH

The relatively unglamorous, low tech field of construction and home services, a category that includes carpet and upholstery cleaning, maid service, mothballing, sewer and drain cleaning, lawn care and chimney sweeping, has experienced dramatic growth over the past 15 years—in percentage, more than any other area of franchised activity.

Consumers today are more willing than in the past to buy free time and convenience, and these franchises provide both. The growing number of two-income households means couples have more money and less time to spend on housework. "People are working harder than ever, and they want to spend their leisure time at leisure," says Leone Ackerly, president of the Mini Maid Services Company, Marietta, Ga.

Growth in remodeling and minor construction will be a result of competition between small and major building firms during the 1970s and the first half of the 1980s, says Naisbitt. As smaller firms fail, they will be replaced by more stable franchised companies with well-known names and images of quality.

"Consumers are looking for quality, and price is secondary to service," says Joseph Garfinkel, president of B-Dry Systems, Inc., Akron, a franchisor of basement waterproofing services. "People are willing to pay for convenience."

Christopher Esposito, president of Four Seasons Greenhouses, Farmingdale, N.Y., says remodeling offers a major opportunity for franchising. "Home equity in the United States is $4 trillion," he says. "Banks are lending money like crazy for people to remodel their homes. This is a $62 billion industry, big enough to sustain many franchise businesses. In the future, Americans will go to a franchise business for home remodeling, the same as they go out to eat."

Though it ranks 10th in total sales among business format franchising categories, the recreation, travel and entertainment category will claim the fastest revenue growth by percent to 1990. Businesses such as travel agencies, miniature golf courses, dance studios and movie theaters had a total of $1.8 billion in sales last year, up from $1.4 billion in 1984. Annual revenue growth for these franchises has averaged almost 30 percent since 1980, and Naisbitt predicts a constant growth pattern, with $6.5 billion in sales by 1990.

Showing a slower growth rate are the remaining five areas of franchising charted in the study—convenience stores, other food retailing, the lodging industry, automotive products and services, and auto and truck rentals.

The study says franchisees even in the slower growing industries will be in a better position than independents because their franchisors can provide them with the benefits of systematized management, centralized purchasing, advertising and name recognition.

The lodging industry is changing rapidly as independent hotel and motel owners become franchisees. Half of all American hotel rooms belong to recognized franchises. "Independents are falling by the wayside or joining chains," says Brian O'Connor, franchise director of the Marriott Corporation, Washington. "Consumers are looking for value, the convenience of an 800 [toll free] number and product continuity."

Family travel is on the rise and, in light of that trend, Naisbitt says, economy-priced hotels and motels will grow more than any other type of purveyors of lodging.

"Additionally, the major hotel chains

Baskin-Robbins' Fred Snowden heads a successful program to locate, train and finance minority franchisees in inner-city neighborhoods.

are segmenting their products into two or more lines," says Richard Ashman, vice president for government and industry relations at Memphis-based Holiday Inns, Inc. "There is a great deal of growth in the lower and upper ends of the lodging market. The middle market has become saturated, while the budget and luxury markets hold great promise."

Another business undergoing change is convenience retailing. Growth in that segment has slowed gradually over the past 15 years. Although revenues surpassed \$12 billion in 1984 and are predicted to exceed \$20 billion by 1990, convenience stores face competition from supermarkets offering extended hours on one side and from fast food franchises on the other. To fight back, convenience stores are "offering more products for their customers than ever before," says Wayne Beeder, manager of franchise systems for Dallas-based Southland Corporation, parent of 7-Eleven stores. Not just selling staples any more, convenience stores have installed automatic banking, self-service gasoline pumps, dry-cleaning facilities and catering services.

The automotive products and services category is being changed by the do-it-yourself market. The aging American car population (36.2 percent of autos on the road are at least eight years old) is encouraging the weekend mechanic. By 1990, do-it-yourself products are expected to take 45 percent of the automotive aftermarket business, presenting what Naisbitt calls "a serious threat to the service franchisors."

Automotive service franchisors are in a better position to counter the threat because they can specialize in a particular service—muffler replacements, lube jobs, rustproofing, transmission repair—while generally charging less than independent outlets.

Naisbitt says the trend to keeping cars longer will continue. Although this will bolster the do-it-yourself market, it will also contribute to prosperity for franchised auto service specialists.

Health care is one specialty sector that demonstrates franchising's ability to meet consumer demands for convenience with quality.

Henry Harper, president of Medical Networks, Inc., of Houston, a franchisor of walk-in clinics that provide neighborhood-oriented general practice, says franchise activity in health care "is about to take off." Harper's company invested \$5 million in systems support to enable its franchisees to meet legal requirements affecting medical businesses.

But the future of health care franchising, says Naisbitt, is likely to be in specialized areas where the regulatory burden is not as great—private duty nursing, dentistry, optometry and dermatology.

"Perhaps the most interesting franchising trend to track," Naisbitt says, "is the migration of women and minorities to franchising."

"More women are becoming single owners of fast food outlets," says Simon of Wendy's. But, he adds, "women are more likely to achieve ownership status in a joint arrangement with their husbands. Even with this growth [of independent female operators], they comprise less than 1 percent of fast food franchise owners."

Though no firm count exists of female franchisees, the Bureau of Labor Statistics reports that between 1974 and 1984 the number of self-employed women skyrocketed 74 percent to 2.4 million. The percentage increase was triple that for self-employed men.

In general, franchising attracts middle management women, says Carol Green, president of Franchise Services of America, Inc., a Denver-based consulting firm.

Women clearly are dominant in some

The 10 top categories of business format franchises and their projected growth through 1990 are shown in the chart below.

Top Franchise Industries: Projected Growth

Business Category	Sales (in millions) 1985	1990	Annual Growth (%)
Restaurants (All Types)	\$ 48,926	\$ 86,109	12.0
Retailing (Nonfood)	18,790	33,580	12.3
Hotels/Motels/Campgrounds	14,631	22,511	9.0
Convenience Stores	12,309	19,377	9.5
Business Services	12,076	21,282	12.0
Automotive Products And Services	10,604	15,944	8.5
Food Retailing (Other Than Convenience Stores)	10,370	14,544	7.0
Rental Services (Auto/Truck)	5,282	8,900	11.0
Construction And Home Services	3,720	9,255	20.0
Recreation/Entertainment/Travel	1,840	6,573	29.0
Total	\$138,548	\$238,055	11.5%

Source: The Naisbitt Group

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franchising areas, such as learning and diet centers and day-care operations. For example, women comprise 98 percent of the franchisees or subfranchisees of 2,103-unit Diet Center, Inc., Rexburg, Idaho. And all of the more than 600 franchises of Los Angeles-based Mode O'Day, a women's apparel retailer, are owned by women. Women are taking larger shares—though still comparatively small—of other areas, like the car aftermarket. Tidy Car reports that about 30 of its 579 franchises are owned solely by women or co-owned and managed by them.

Some franchisors have made a commitment to ushering women into their businesses. Says Bonny LeVine, vice president of Los Angeles-based Postal Instant Press, a fast printing franchise: "We find that women frequently make better candidates for franchises than some of their male counterparts, and we don't want to lose the opportunity to tap that pool of talent." Among the strengths LeVine attributes to women franchisees are greater patience and, often, "more business acumen."

Minority ownership of franchise outlets increased 13 percent from 1982 to 1983. Major fast food franchises make concerted efforts to recruit minority franchisees.

Baskin-Robbins, Glendale, Calif., has a program that targets inner-city neighborhoods for minority franchises. It is the brainchild of Fred Snowden, Baskin-Robbins vice president of urban development. "Basically, we enlist the support of the urban community—the local government, school system, churches and civic groups—to help the company find franchisees," says Snowden.

With that support committed, Baskin-Robbins then works out the necessary financing ($100,000-$130,000 per outlet) and trains the qualified minority applicant.

Both minorities and women, Naisbitt says, will be a primary source of management expertise in the future.

Franchising has become a major American export. The number of companies with international outlets rose from 143 in 1973 to 305 in 1983. By the year 2010, the Naisbitt study says, there will be more than 750 companies with international outlets.

"The trend toward overseas franchising mirrors an overall shift to global retailing and marketing," says the study. The major markets are Canada, Britain, Japan and Australia. Well-established operations—rental cars, hotels, convenience stores and fast food—were the first into these markets and are now being followed by the whole range of franchise services.

"By 1990," the study says, "there could be as many McDonald's restaurants internationally as there are now in the United States."

Naisbitt says that in the next 25 years almost any service imaginable will be franchised and, because franchising is a way of expanding from a single outlet to a regional, national or international system quickly and with a minimum of capital, it will be a major source of business growth. NB

To order reprints of this article, see page 77.

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For More Opportunities, Turn to Pages 78 & 79

PERSONAL

To Your Health

Making the shoe fit: Good design can help prevent injuries caused by an unusual stride.

By Richard J. Chapel

Americans love running shoes. Thirty million of us consider ourselves runners of some sort. A lot of mileage is being run up out there—and there are a lot of sore feet, ankles, calves and knees. Responding to the demands of joggers, runners and racers, footwear manufacturers are offering a multitude of designs aimed at improving comfort and reducing running-related injuries.

Designing and manufacturing running shoes has gone high tech. Shoe manufacturers have adopted biomechanics—measuring forces and motions in parts of the body—as the basis for running shoe design. There are shoes that offer motion control, supercushioning and ultra flexibility for racing and special needs.

According to Linda Berlinghoff, a spokesperson for the shoe company Puma U.S.A., Inc., "Running shoes have never been better made. Over the past few years, the trend has been to lighter shoes, but not at the expense of support."

There is a shoe for every foot. But finding a fitting solution to your running needs requires a bit of self-analysis and an eye for shoe construction.

Your foot is one heck of a shock absorber. Says Peter Cavanaugh, professor of biomechanics at Pennsylvania State University and author of *The Running Shoe Book:* "Forces up to three times the body weight are applied at different places on the foot. When you consider that impact in combination with the various motions involved in a runner's gait, you have tremendous potential for strain."

The foot is designed to roll inward when it hits the ground. The experts call this "pronation." The foot hits first at the heel and then rolls, or pronates, so it can be as flat as possible on the ground before launching the body into the next stride.

Many runners overpronate. When this happens, the foot is loose and uncontrolled. It does not become the solid platform you need for a safe push off into the next stride. Overpronators may have problems with such injuries as shinsplints, knee strain, tendinitis, hip pains and joint inflammation. "That's why manufacturers have been seemingly obsessed with providing motion control," notes Cavanaugh. "The two key roles a shoe can play in this are shock absorption and stability. If you can control motion, you can prevent injuries."

Proper running shoes can forestall injury-causing motions of the foot when it hits the ground improperly.

PHOTO: CONVERSE

Are you an overpronator? A way to check yourself out is to stand on cement with bare wet feet. A runner with the desired rigid foot motion will make wet spots at the heel, the toes and outside edge of the foot with a dry arch space. The pronator (often associated with flat feet) will usually show a wet spot in the arch area. An underpronator will barely show an outline of the outside of the foot.

Once you have an understanding of your particular gait, running shoe selection becomes a matter of speaking the shoemakers' language. You will hear shoe salespeople talking about various kinds of *lasts.* A last is the foot-shaped platform on which the shoe is built. Basically, it controls the stiffness and curvature of the sole.

"Board" lasted shoes offer stiffness and stability with less shock absorption capability. "Slip" lasted shoes are constructed like moccasins. These are more flexible and offer better shock absorption, but less stability. Combination lasting is catching on, and it makes sense. It offers needed stability (stiffness) in the rear foot and flexibility and cushioning in the front foot area.

According to Al Gross, research and development consultant for Converse Rubber Corporation, high technology has had its greatest effect at the midsole, the cushioning material between the upper and the sole. "We're using advanced multiple density materials to force the foot to fall properly in place along the midline of the shoe," Gross says. "Multidensity materials provide stiffness on the outside for control and supercushioning in the middle for comfort." It may sound complicated, but most feet have no trouble recognizing superior comfort.

Cavanaugh says that selecting the right shoe is especially important for the inexperienced runner. "Beginners need the best shoes they can get," he says. "They aren't in a position to judge precisely what kind of shoes they need, so they should avoid sacrificing foot protection for price." According to Cavanaugh, good shoes, featuring biomechanical designs, start at about $40, but the ultimate judge of suitability is not just a matter of construction. It is fit.

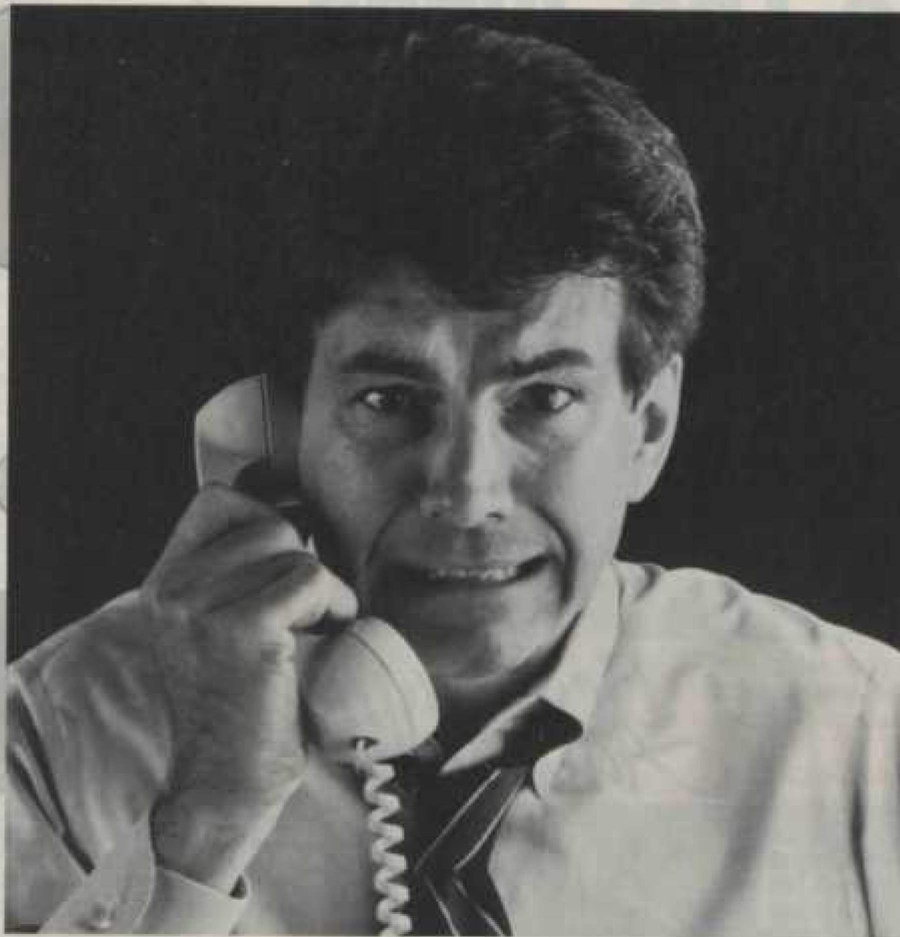
Look for flexibility in front, sufficient stiffness in the heel to keep your foot stable and centered, and good shock absorption.

Feel for snugness in the middle and rear where stability is key, but go for room at the ball of the foot. If your feet are cramped here, you won't get enough lateral support when they spread under impact.

Also, you should feel the arch pressing against the underside of your foot to prevent muscle fatigue. Test the cushioning by jumping. Finally, check the heft. You want a lightweight shoe, but not at the expense of stability and cushion.

Selecting the right shoe seems like a lot of effort, but you can be sure your feet will thank you for it. A knowledgeable and patient approach will enable you to take shoe shopping in stride. ■

Richard J. Chapel is a free-lance Worcester, Mass., writer.



You Be The Judge

You are the key person for advertisers' messages. Who is better qualified to decide which ads are most effective?

1985 Best Business Advertising AWARDS

Here is your chance to select what you think are the best advertising campaigns of 1985. Be a judge in NATION'S BUSINESS' third annual "Best Business Advertising Competition." All you need is a pen—and an opinion.

We know that people in business have a full schedule. So, we have supplied you with a convenient postage-paid reply card. Just examine the nominations appearing on the next five pages. Once you select your choices in both the television and print categories, mark the ballot on the reply card facing this page and send it back to NATION'S BUSINESS.

What makes this competition unique is that you, a NATION'S BUSINESS reader, are a judge in this contest. Advertisers care what you think about their work over the past year. As a business executive with strong purchasing power, you are the key person to whom business-to-business advertisers are directing their messages. Who else, then, would be better qualified to tell these advertisers which ads are most effective?

Last year, Merrill Lynch took first place in the print category. The winning ad pictured shattered AT&T letters while the brokerage firm promoted the breakup of the Bell system as a great investment opportunity.

Merrill Lynch and its ad agency, Wunderman, Ricotta & Kline, Inc., turned a widespread negative perception of the breakup into a positive marketing tool for the brokerage firm. To find out why the breakup could be an investor's lucky break, readers could mail Merrill Lynch a reply card included in the ad.

Apple Computer's "1984" ad—a borrowing from George Orwell's futuristic novel—wore the winning laurels in the broadcast category. The ad announced the imminent unveiling of the Macintosh without revealing exactly what the product would be. Apple and its agency, Chiat/Day, Inc., also wanted to portray Macintosh as a technological tool that would not be intimidating to its users.

Though the ad was aired nationally only once (during the 1984 Super Bowl Game), readers called it "revolutionary, memorably risky" and "extremely outrageous advertising that demonstrates company attitudes."

This year, top creative executives of leading U.S. advertising agencies and leading business advertisers nominated 20 television and print ads. It takes a well-structured collaboration by agency and advertiser to come up with an outstanding ad. The NATION'S BUSINESS award, therefore, recognizes both for achievement.

Voting results will be tallied by an independent company, Action Surveys, of Silver Spring, Md. The winners will receive the prestigious and distinctive scallop-shaped trophy that tells the business world that their ads hit their targets right on.

To be eligible for this competition, ads had to be directed specifically to businesses, not just individual business people. Each nominating committee member was permitted to make six nominations, but only one of the six could be an ad—either print or TV—produced by the member's agency or company.

We also want to know why your favorite ads were effective. So please take a minute to write on the reply card why you have selected certain ad campaigns as winners.

The May issue will carry readers' comments and announce the results. We will even detail the strategies behind the winning ads. You might find some inspiration for your own business' ad campaign!

Make your opinion count! Send in your card no later than Friday, February 28.

Nominating Committee

Jane Arkus
Senior Creative Director
HCM/Pittsburgh

Charlie Ashby
Senior Vice President/Director of Creative Services
McKinney Silver & Rockett

Philip L. Bauer
Creative Director
Winston Advertising

Robert W. Cooke
Associate Creative Director
Richardson, Myers & Donofrio, Inc.

Charles Fillhardt
Executive Vice President/Creative Director
Battenberg, Fillhardt & Wright

Roy Grace
Chairman/Executive Creative Director
Doyle Dane Bernbach U.S.

Mike Hughes
Creative Director
The Martin Agency, Inc.

Jay Jasper
Senior Vice President/Deputy Creative Head of the New York Office
Ogilvy & Mather

Len Karsakov
Senior Vice President/Creative Director
Arnold & Company

Marce Mayhew
Executive Vice President/Creative Director
Bozell & Jacobs

Ron Rich
Manager of Marketing Services
Xerox Computer Services

Brett Shevack
President
Calvillo, Shevack & Partners, Inc.

Bruce G. Silverman
Executive Vice President
BBDO/West, Inc.

Susan P. Smith
Advertising Manager
Braniff, Inc.

1985 Best Business Advertising PRINT

1.

2.

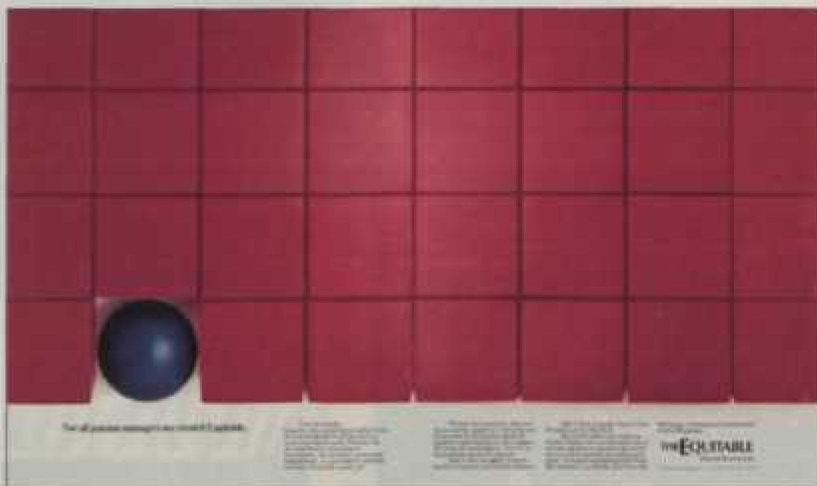
3.

4.

1. **Cigna**
   Doyle Dane Bernbach U.S.
2. **Electro-Motive Division of GM**
   The Martin Agency, Inc.
3. **Lukens Steel**
   Richardson, Myers & Donofrio, Inc.
4. **American Association Of Railroads**
   Bozell & Jacobs

1985 Best Business Advertising PRINT

5.



6.

7.

8.

5. **Fleet Financial Group**
   Arnold & Company

6. **The Equitable Life Assurance Society Of The U.S.**
   Calvillo, Shevack & Partners, Inc.

7. **Federal National Mortgage Association**
   McKinney Silver & Rockett

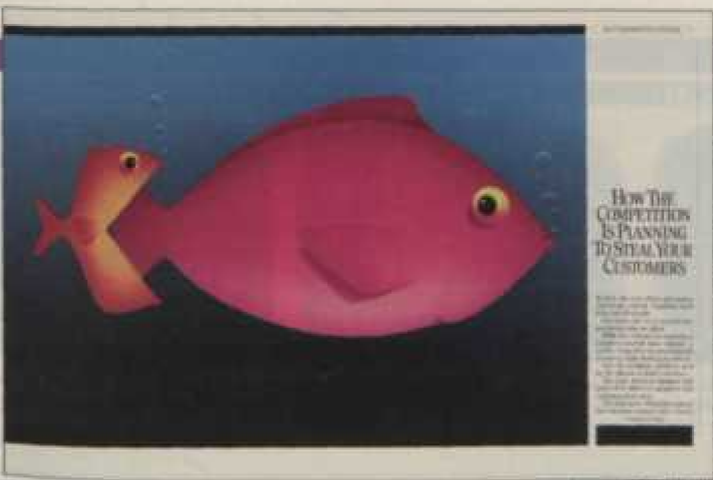
8. **United Technologies**
   In-house

9. **AT&T Information Systems**
   Ogilvy & Mather

10. **Sierra Information Systems**
    Winston Advertising

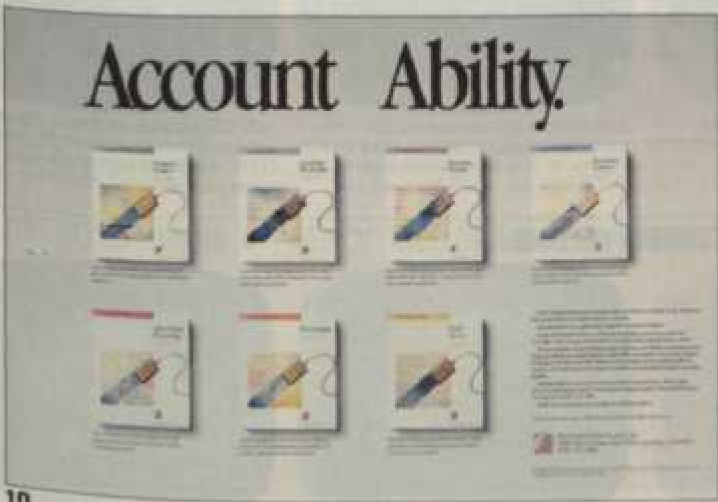
11. **Wicat Systems**
    D'Arcy MacManus Masius

12. **Union Bank**
    BBDO/West, Inc.


HOW THE COMPETITION IS PLANNING TO STEAL YOUR CUSTOMERS


Business imperatives have a nasty way of evolving right out from under expensive, just-installed systems.
AT&T
The right choice.

9.


Account Ability.

10.


THE LEADING EDGE OF MINI COMPUTER TECHNOLOGY

11.


What a company of hundreds can learn from a crew of nine.

12.

1985 Best Business Advertising

BROADCAST

1. ADVERTISER: NATIONAL STEEL ■ AGENCY: HCM/PITTSBURGH

ANNOUNCER: American car companies were looking for a special steel . . . It had to resist moisture, fight off road salt and heal itself from scratches.

But it also needed superior smoothness . . . and paintability for the outside of the car.

The steel . . . electrogalvanized. The steel company . . . National Steel.

When it comes to serving Detroit carmakers, we're never satisfied.

2. ADVERTISER: FEDERAL EXPRESS ■ AGENCY: ALLY & GARGANO, INC.

ANNOUNCER: Call any air express company and ask if they'll guarantee to give the exact status of your package within 30 minutes, or your money back.

GUY: Yeah, wellllahhhyouknowahhsee ahh, the thing is . . .

ANNOUNCER: Call someone else and ask if they'll guarantee to deliver your package on time, or your money back. GUY 2: Well, gee, I erahh, gosh, well ahh . . .

ANNOUNCER: Then call Federal Express and ask us the same question. FEDERAL CLERK: Absolutely, positively or your money back, sir.

3. ADVERTISER: DATA GENERAL ■ AGENCY: FOOTE, CONE & BELDING

ANNOUNCER: Data General asks . . . In tomorrow's business battle, will you be buying . . . yesterday's technology?

At Data General, our computer systems are so advanced, we win more major contracts than any other company.

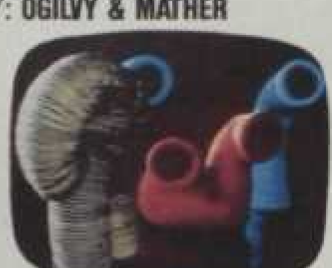
Talk to Data General.

A generation ahead.

4. ADVERTISER: AT&T INFORMATION SYSTEMS ■ AGENCY: OGILVY & MATHER

ANNOUNCER: AT&T on office automation: Most of the business machines sold today only work with their own kind. Anything else is "Brand X."

That leaves your company locked in and some powerful new products locked out. Enter AT&T. Our office design welcomes computers, word processors, networks



and telephones made by many vendors, not just AT&T. That way, as your needs change, so can your system. We make the pieces fit.

In AT&T's world, flexibility is everything. Because in business, you never know what tomorrow may bring. AT&T Information Systems. The right choice.

5. ADVERTISER: **IBM TYPEWRITERS** ■ AGENCY: **DOYLE DANE BERNBACH U.S.**

ANNOUNCER: Imagine if something could signal you when you made a spelling mistake. That would mean you'd be able to correct it . . .

before anyone else ever saw it. Well, IBM Selectric System/2000 Typewriters with Spell Check can do that.

It's an electronic "dictionary" that signals you when you misspell a word. So now if you make a spelling mistake

. . . the whole world doesn't have to know.
SINGERS: We're your . . . type.

6. ADVERTISER: **XEROX** ■ AGENCY: **NEEDHAM HARPER WORLDWIDE, INC.**

ANNOUNCER: It's a small company. In fact, you're looking at the entire staff. But to the client they looked as professional as their biggest competitors.

Maybe that's because they had the help of Team Xerox. Everything looked perfect with their Xerox Memorywriter.

And they got big copier features right on their desk with a new Xerox Marathon copier.
At 9 a.m. they presented their case.

By 4 p.m. they got one with a note saying "Please thank your staff for such great work." Which, happily, they did.
PARTNERS: We got it! We got it!

7. ADVERTISER: **WANG** ■ AGENCY: **HILL, HOLLIDAY, CONNORS, COSMOPULOS, INC.**

ANNOUNCER: For years, computer companies have attacked IBM's hold on information processing only to be slapped down.

Again and again. Some were too small. Some too slow. And some just didn't have the weapons to fight back.

Until Wang. Wang minicomputers have enough power to beat IBM in the battle for your office.

Wang. Just give us a shot.

8. ADVERTISER: **IBM PERSONAL COMPUTERS** ■ AGENCY: **LORD, GELLER, FEDERICO, EINSTEIN, INC.**

ANNOUNCER: If you're thinking of buying a personal computer . . . a few questions may still be holding you back. Will your PC have the power you want,

to run the software you want? What about expandability? And optional equipment? If these questions have crossed your mind . . . now's a good time to look at IBM.

An IBM PC can run the latest programs . . . and give you almost unlimited expandability . . . with options like the new IBM printers and the IBM PC Network.

So, don't wait. Once you take the first step . . . the rest come easy. IBM personal computers. See them at a store near you. Or call your IBM representative.

DIRECT LINE

Answers To Your Questions

Help with business problems, from too much office space to too little knowledge of plastics.

Native Talents

What procedure is necessary to obtain a license in Alaska to open up a welding school for Alaskan natives?
K.G., Humble, Tex.

Every state has its own licensing and accreditation rules, so it is a good idea to contact Alaskan education authorities. For more information, write Paul Gulyas, director of administration, Alaska Commission on Post-Secondary Education, Pouch FP, Juneau, Alaska 99811, or call (907) 465-2854.

Research Assistance

I am currently involved with a project in plastics that requires some technological research to be completed. I would like to find a qualified firm that can say whether the research has already been done or that can do the job itself. The plastics industry is large, and there should be someone out there who can help. Any suggestions?
W.G., Auburn, Wash.

Not only is the plastics industry large, but there are also many different kinds of plastics. It is hard to know how to advise you without more information on your specific product. Define the type of plastic you are working with and contact the Society of Plastics Engineers, 14 Fairfield Drive, Brookfield Center, Conn. 06805, or call (203) 775-0471.

Financial Fellowship

How do I find financiers and/or investors in my state who might be interested in joint partnerships? Is there an association of investors? Are there magazines specializing in investor news?
H.R., Laredo, Tex.

The American Association of Individual Investors will have the information you need. The association also conducts seminars addressing investment questions. For more information, the group's address is 612 North Michigan Avenue, Chicago, Ill. 60611; (312) 280-0170.

Lease Liabilities

I am folding my company and starting a new one with a partner. The expanded business will not fit in my old office, but I still have commitment to the office's lease. What are my risks in subletting the space?
L.J., Washington

ILLUSTRATION: WILLIAM COULTER

If you have a lease that cannot be broken, you will continue to be responsible for the office, says Jim Creedon, a broker with Coldwell Banker Commercial Real Estate Offices in Washington. Unlike subletting an apartment, subletting business space is a common practice. Many firms that predict growth move into a large office and sublet the unused space until they need it.

In subletting office space, it is most important to be realistic about how much you can rent it for, says Creedon. It is possible to make a profit in an area that is enjoying increased popularity. You might also take a loss if the rents in your business neighborhood have plummeted. Most landlords reserve the right to approve the new tenant, but when the rent comes due, it is still your responsibility.

Scoop On Group Selling

What are multilevel marketing and networking? Where can I find out more about them?
D.C., New Iberia, La.

Multilevel marketing is a system of setting up individual independent contractors to sell your product. They, in turn, build up their own businesses by recruiting independent contractors to distribute and sell the product to other contractors and consumers, says Joseph Mariano, attorney for government relations for the Direct Selling Association, 1776 K Street, N.W., Suite 600, Washington, D.C. 20006, (202) 293-5760. A multilevel marketing plan offers such benefits to the manufacturer as a large sales system with the normal costs of overhead. But the manufacturer must work harder to motivate the sales force by offering incentives and commissions.

According to Mariano, networking, as it applies to multilevel marketing, is building a sales organization by meeting with people and establishing business contacts to further your enterprise. *Marketing Times*, *The Sales Executive* and *Vital Speeches of the Day* have printed articles on networking over the past three years. The newsletter, *Multilevel Marketing News*, P.O. Box 1774, Fair Oaks, Calif. 95628, (916) 965-9394, may also be a helpful source of information.

Bid Resources

How would I find out if my area has a bid resource center, one of those organizations you have written about that help small businesses—and sometimes, larger ones—learn of opportunities to get government contracts?
L.J. McG., Glendale, Ariz.

Tom Combs, of the Gray Institute, which coined the term bid resource center and was instrumental in forming the first one—the Southeast Texas Bid Resource Center—says there is no central directory of BRCs. He says your local chamber of commerce can tell you if there is one in your area.

Combs suggests that a chamber interested in getting a BRC started might contact him at his institute, 855 Florida Avenue, Beaumont, Tex. 77708.

How To Ask

Have a business-related question?

Write to: Direct Line, NATION'S BUSINESS, 1615 H Street, N.W., Washington, D.C. 20062. Writers will be identified only by initials and city. Questions may be edited for space. All replies must be given in this column.

Innovators

Why entrepreneurs fail; the right way to build loyalty in employees; climbing to a career plateau.

By Sharon Nelton

The Trouble With Entrepreneurs

We all know entrepreneurs are wonderful. They are innovators who keep us on our competitive toes. They create jobs. They pave the way for new industries and markets. They are the artists and poets of the business world, rushing in where the rest of us angels fear to tread and seeing the world in ways most of us never could imagine.

But if they are so smart, how come so many new businesses fail?

Maybe one answer can be found in the words of Lawrence M. Liss. "Most of the entrepreneurs I've met are not coachable," he says. "They're unwilling to be taught. They are going to do it themselves. They make the same stupid mistakes everybody's already made."

Calling an entrepreneur pigheaded may be fighting words, but Liss is speaking of his own kind. He is co-founder and chairman of Diversified Energy Group, Inc., a nine-year-old Malvern, Pa., holding company with several subsidiaries specializing in energy waste management and asbestos abatement.

Not far away to the east, in Philadelphia, George L. Bernstein, chief executive officer of Laventhol & Horwath, the nation's 10th largest accounting firm, has his own ideas why entrepreneurs get into trouble. His thoughts are not so far removed from those of Liss.

Entrepreneurs, Bernstein says, are known to be indomitably self-confident, hardworking and hard charging—traits that cause entrepreneurs not only to succeed but also to fail.

Their self-confidence leads entrepreneurs to "rely on very, very few people," says Bernstein, whose firm recently conducted three studies on entrepreneurs. Self-reliance and flying by the seat of the pants may work well in the early years of a business, but when it gets to a certain size, planning—especially strategic planning—becomes necessary, he says. That means the entrepreneur must do something he is loath to do: surround himself with people who can help, like an attorney, an accountant, a banker, an

ILLUSTRATIONS BOBBI TULL

outside board of directors or others who can provide ideas and give an independent viewpoint of where the business is going.

An entrepreneur resists help, Bernstein says, because "he's not going to see the flaws in his or her baby." This inability to plan and to accept the advice from others that is necessary to think through the problems of a business is the No. 2 reason why many entrepreneurs fail, contends Bernstein. If entrepreneurs could overcome their reluctance, he says, the small business failure rate—more than 90 percent in the first five years—could be reduced.

All right, that is the No. 2 problem. What's No. 1? According to Laventhol & Horwath research, Bernstein says, people with the "entrepreneurial character" do not have much empathy for their employees, be the empoyees executives or clerks. Entrepreneurs have tremendous drive and a willingness to work extremely long hours and undergo high stress. They assume everyone else is just like them, and when they find their employees don't exhibit such traits, they don't understand why not.

Bernstein says L&H's research found that entrepreneurs' first and most heated complaint "concerns problems in finding, motivating and retaining the employees they need." But the entrepreneurs perceived the problem quite differently than the L&H researchers. The entrepreneurs despaired over chronic absenteeism, high turnover and the difficulty of finding middle managers they could trust enough to give substantial authority.

The research, however, suggests that the entrepreneur's own personality is part of the problem. "Often the same business owner who complains that he doesn't trust subordinates enough to

delegate authority will admit that he or she doesn't want to give up much authority, anyway," says Bernstein.

Possessive entrepreneurs erect barriers to their employees' feeling a sense of identification with the company—and then they often fail to understand why the employees don't work as hard as they do.

Larry Liss at Diversified Energy Group is keenly aware of entrepreneurs' problems. He has faced them in himself and continues to work hard to overcome them.

Liss says he still believes that it is necessary for the start-up venture to have "not a dictator, but a benevolent dictator."

As the company grows, he says, that system no longer works. The entrepreneur has to let go. He has to give the people around him room to grow and make decisions and, yes, mistakes. To try to get his own point of view across, the entrepreneur has to become more "tactical" and diplomatic. He has to learn to coach his people instead of dominate them, and he has to accept coaching himself so that he continues to grow.

"Most entrepreneurs fail because their 'soldiers' are doing what the entrepreneur tells them to do," says Liss. "They're not developing, and the entrepreneur has a company that's growing but nobody around him that can carry the weight."

To keep from making the blunders that so many entrepreneurs make, Liss brought in partners from the beginning. He relies on them to cover his blind spots and he, in turn, covers theirs. It seems to work. DEG had $10 million in sales in 1985, and Liss thinks the company has a good chance of doubling that this year.

About every eight weeks, Liss takes some sort of personal growth seminar. "You owe it to the people around you to be trained," he reasons. But you can't get most entrepreneurs into such courses, Liss says. "They know it all. But underneath, they're afraid to discover that they're weak. They're afraid to discover the negative things about themselves. They don't realize that while they're discovering their weaknesses, they're also discovering more strengths."

The Secret Of Loyalty

Don't keep harping on loyalty. Sermonizing about it is probably the worst way to achieve it, warns W. Charles Redding. Redding, a Purdue University professor of organizational communication and a consultant, says he has heard employees groan, "Not that again!" at the mere use of the word.

Companies that push loyalty too hard "run the risk of suppressing dissent while encouraging regimentation," says Redding. Thoughtful loyalty can slip into blind loyalty and blind loyalty can slip into scandals—like the kind that have embarrassed some brokerage firms and defense contractors.

So how can a company get thoughtful loyalty from its employees? It has to be a two-way street, Redding advises. "How often do we hear about campaigns to encourage loyalty to employees?" He says the best-run companies *earn* loyalty—responding, for example, to hard times by avoiding layoffs through shorter workweeks for hourly employees and salary cuts for management.

"Think about it this way," says Redding. "If a friend has to ask for loyalty, there must be something wrong with that friendship. The same can be said of organizations."

The Plateau Problem

Executives reach a career plateau when they arrive at a level beyond which promotion is unlikely—unless they leave the company. "Career plateauing" is a problem for employers as well—one that Catalyst, a New York nonprofit organization, says is sure to increase.

Catalyst, which works with corporations and individuals to develop career and family options, observes that demographics such as the increase in the number of M.B.A. degrees (about 4,700 granted in 1959-60 compared with 61,000 in 1981-82) mean tougher competition at the top.

For employers, plateauing means underuse of vital human resources and diminished productivity. Morale suffers, says Catalyst. "Some stalled achievers might seek other, more receptive work environments, elevating turnover rates." Others may stay put but contribute less.

Some companies are taking steps to confront plateau problems, such as expanding opportunities for lateral moves and challenging short-term assignments that can help sustain employees' interest in their jobs.

But Catalyst says that women are disproportionately affected by the plateauing syndrome because they are heavily concentrated in the bottom half of the organizational pyramid.

TECHNOLOGY

The Cutting Edge

Bracing for a Japanese challenge, the optoelectronics industry starts a joint research venture.

By Karen Berney

A new entry in the drearily familiar script for U.S.-Japanese high tech competition is a government-sponsored study of optoelectronics, an emerging technology in which communications and computer systems are powered by devices that use light as well as electric current to send information.

Although the U.S. optoelectronics industry has a slight edge over Japan's, American firms have not matched the Japanese in long-term commitment to research and development, to product engineering and to increased market penetration, says a report by a panel of industry experts. The report was issued by the Commerce Department.

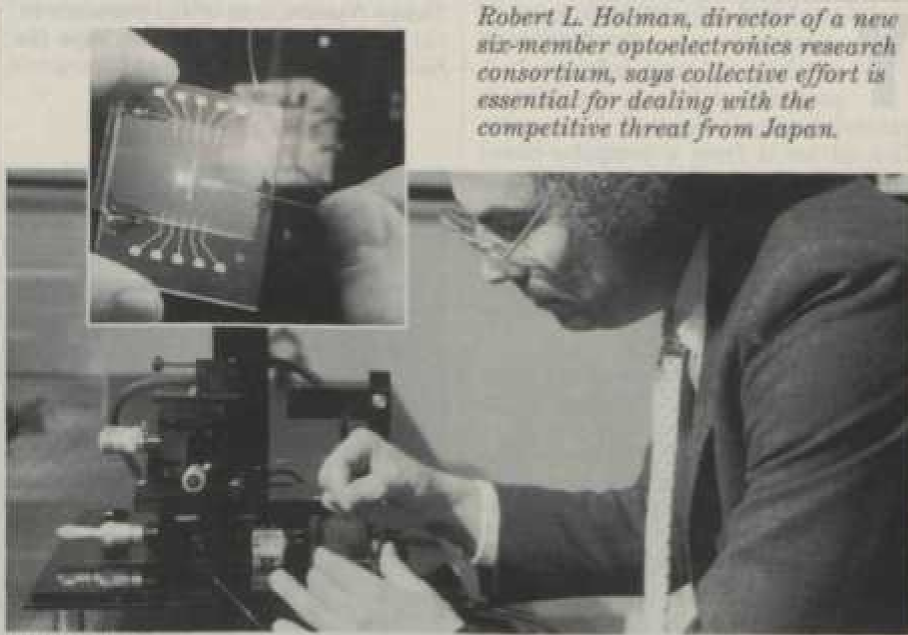
Convinced that optoelectronics is the wave of the future, the Japanese Ministry of International Trade and Industry has been spearheading a coordinated, $100 million program of optoelectronic research since the mid-1970s—long before a market even existed. This steady investment in market creation through technology push is in direct contrast to the United States, where short-term opportunities pull the technology, says Robert S. Bauer. Bauer, of the Xerox Palo Alto Research Center, was one of the report's contributors.

Thanks to their long haul mentality, the Japanese have surpassed the United States in several areas, including the foundation of optoelectronic devices, nonsilicon compound semiconductors.

Gallium arsenide, prized because of its ability to operate at ultrahigh speeds with low power dissipation, is the most popular compound material. It is primarily used to build lasers that drive compact audio and optical disk players. "What is really scary is that Japan is the world's only reputable commercial source of gallium arsenide substrates," Bauer says.

Researchers are alarmed that the development may signal a trend disproving the old maxim that the United States innovates and Japan imitates. Japan has already astounded the U.S. optoelectronics industry with its knack for translating laboratory results into commercial products—it controls the market for semiconductor lasers—and now appears to be "catching up to our level of creativity," says Frederico Capasso, of AT&T Bell Labs.

Robert L. Holman, director of a new six-member optoelectronics research consortium, says collective effort is essential for dealing with the competitive threat from Japan.



PHOTOS MAX SHAFFER

In October, determined to do something before it was too late, six leading U.S. optoelectronics manufacturers pledged $600,000 each to a cooperative research venture. The goal: to speed development of generic, low cost manufacturing technologies for optoelectronic devices, which will account for a $30 billion market by the year 2000.

The effort, spread over a 42-month period, will be carried out by scientists at the Battelle Memorial Institute, a nonprofit scientific research organization, at its Columbus, Ohio, branch. It is backed by Allied Corporation; AMP, Inc.; Dukane Corporation; Hewlett-Packard Company; ITT and Litton Systems, Inc.

"The consortium is absolutely critical for coping with Japan," asserts its director, Robert L. Holman.

To enhance U.S. competitiveness by driving down manufacturing costs, the consortium will undertake three parallel projects. It will seek to invent techniques to bond sets of hair-thin fibers to devices, engineer a new composite material and improve the stability of semiconductor lasers.

But some people doubt that the joint venture can work, given the American tradition of individual achievement. Depriving the individual of credit for resourcefulness and innovation "could result in eliminating one of the few advantages the United States has left," Bell Labs' Capasso says.

Consortium members, however, do have reason for optimism. As a precedent, they look to the Microelectronics Computer and Technology Corporation, usually referred to as "MCC" by industry observers, a venture of 21 electronics companies that was organized three years ago to conduct long-term research on new computer architectures.

MCC has had no trouble in getting competitors to collaborate, because all share the belief that "it is no longer possible to conquer the world in isolation," says MCC Senior Vice President Palle Schmidt. The key to making MCC work has been guaranteeing that members are prepared to "absorb MCC's output without delay," Schmidt says.

Holman has followed MCC's example and set up numerous technology transfer vehicles, including the use of videotapes to "show participants new techniques as they really happen." Once the program proves it can achieve significant results faster than any solo operation, Holman believes, many electronics firms with plans to diversify into optoelectronics will be knocking on Battelle's door. Those that do not will risk being washed away by their more visionary competitors, he says. NB

TECHNOLOGY

Lawyers For A High Tech Age

By Karen Berney

You should take 100 milligrams of gentamicin once a day for a week to clear up your infection." A prescription from a specialist in gastrointestinal disease? Not quite. This advice is from a computer-based expert system that has diagnosed your symptoms.

But due to a programing error, the system has failed to flag an incident in your medical history indicating you would get an allergic reaction to the drug.

You take the medicine and are rushed to the hospital for emergency treatment. You want to sue for damages, but who is responsible? The doctor who wrote the prescription? The creator of the software system? The vendor that distributed it?

The case is hypothetical, but the liability issues it raises are just around the corner. The prospect is drawing increasing numbers of attorneys into the fastest-growing legal specialty: high technology law.

"Twenty years ago you would call yourself a high tech lawyer, and people would treat you like you had a social disease," says Susan Nycum, one of the first in the field. Nycum, a partner in Gaston Snow & Ely Bartlett, Palo Alto, Calif., says nearly every major law firm is setting up a high tech practice, and "every lawyer is dying to proclaim himself a practitioner."

Membership in the Computer Law Association provides evidence that computer law is the rage. From 1980 to 1985, it soared from 100 to 1,100 attorneys. Though computer law will continue to attract followers, the next few years will also see the rise of lawyers specializing in such esoteric technologies as artificial intelligence.

Space law, too, will be popular, and it is "going to make a lot of lawyers very rich," predicts Arthur Dula, a Houston aerospace attorney.

When numerous legal obstacles to industrializing the heavens are cleared, markets worth hundreds of billions will open, he adds.

Many law students are pinning their career hopes on high tech law. They are demanding access to the kind of training needed to succeed in a market where the language of science is as important as that of the case book.

Susan Nycum, one of the pioneers in the practice of high tech law, says the field has gotten so hot that "every lawyer is dying to proclaim himself a practitioner."

Indicative of the trend is the School of Law at the University of California, Berkeley, which just three years ago did not offer even one course in the high tech arena. Four such courses are now in the curriculum, and the university has launched the student-edited *High Technology Law Journal*. On the drawing boards are plans for a center to serve as an information clearinghouse on technology and law.

According to one student, senior Christopher Wright, about 10 percent of Berkeley's law students have expressed interest in becoming high tech lawyers. Their reasoning is purely economic, he says. "There is a glut of lawyers out there. High tech is the one growth spot." Wright, who plans to focus his own legal career on high tech, says he realizes that all his potential clients "will be touched by it in one way or another."

A good starting position for someone like Wright might be with Pittsburgh's Reed Smith Shaw & McClay. Sensing an opportunity early on, the firm established the TECHLEX Group in 1982 to cater to needs of the high tech community.

The group was formed in response to clients' requests for one-stop legal shopping, says its chairman, Arthur J. Schwab. Before then, each client used as many as four law firms in different specialties and paid heavy legal fees. "It just wasn't cost-effective," notes Schwab, who reports a fourfold increase in clients, from traditional manufacturing companies to small start-ups, since TECHLEX opened for business.

High tech entrepreneurs are often scientists or engineers "who are not prepared to recognize and confront legal issues at a time when the need to do so is greatest," Schwab says. Their

Who is liable if a computer program gives you a false diagnosis? A new field of law is trying to find out.

problems range from the fundamentals of how to obtain a corporate name to the abstract issue of how to manage a new technology in an environment fraught with legal uncertainty.

It is the knack of knowing how to make the best of the uncertain that sets the high tech lawyer apart. "Not only do you have to be conversant in every facet of the law, but you also have to anticipate new law and evolutions in the old," says Nycum.

How important is having a technical background? To be effective, most high tech lawyers need only to stay abreast of technology. But in some fields technical expertise is essential for success.

Nowhere is this more true than in the emerging biotechnology industry. Biotechnology, the application of genetic engineering to commercial uses in such industries as pharmaceuticals, chemicals and agriculture, was born in the early 1980s and thus is in its legal infancy. "Basically, there are no biotechnology laws," says Bruce F. Mackler, general counsel to the Association of Biotechnology Companies. "Rather, there is the process of interacting with various government agencies to get regulations that will enable the industry to grow."

Mackler, who holds a Ph.D. in microbiology, says his best strategy for expediting federal approval of his clients' innovations is to approach regulators as a scientist, not a lawyer. "If I walk into an agency wearing my legal hat, I am regarded with suspicion," he says. "I have automatically established an adversarial relationship."

But if he puts on his scientist's hat, Mackler can quickly establish rapport with science-minded regulators and work through complex commercial and social issues. "The biotechnology lawyer who can grasp technological nuances has the advantage, because he understands the strengths and weaknesses of his arguments," Mackler says. Not surprisingly, industry is giving birth to a new breed of lawyers—the doctor of jurisprudence degree backed by one in advanced science.

Lack of statutes and legal precedents is not unique to biotechnology. It is a problem shared by all segments of the

Technological change is occurring so fast, says Boston attorney Peter Marx, that entrepreneurs may fall victim to laws written to fit outdated circumstances.

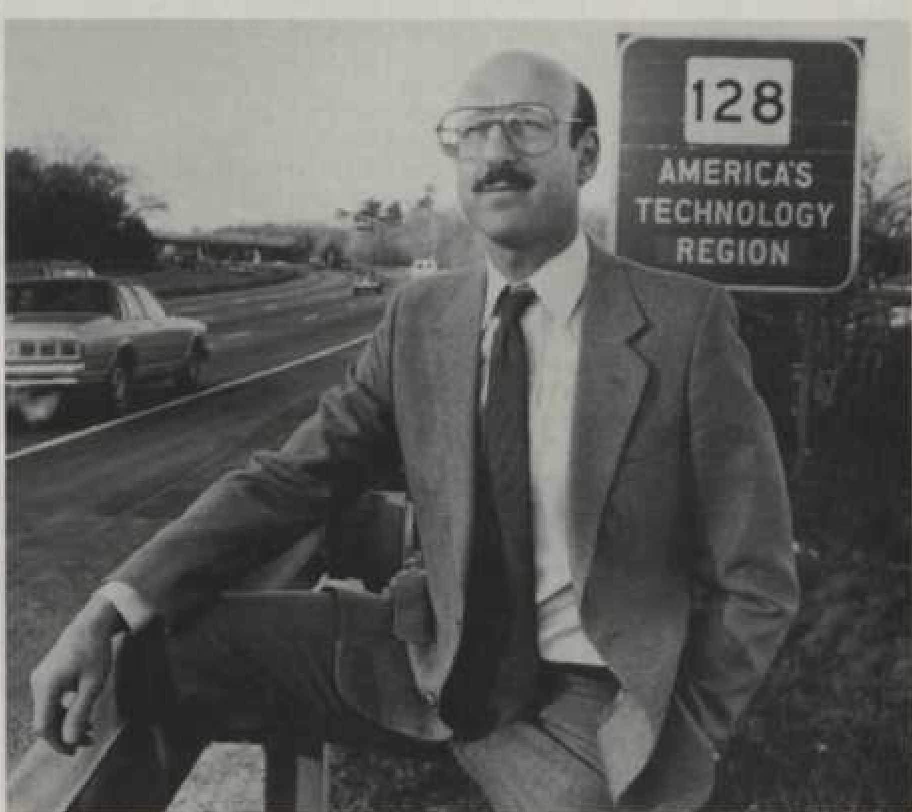


PHOTO: RICK FRIEDMAN—BLACK STAR

high tech community. Because quantum leaps forward are occurring so fast, "neither Congress nor the state legislatures have been able to keep up with the multitude of questions posed by the information age," says Peter Marx, a high tech attorney with Goulston & Storrs, Boston. As a result, most litigation is being resolved case by case.

Says Palo Alto's Nycum: "High tech lawyers are like the first skiers who lay tracks after a fresh snowfall." That may make lawyers happy, but it is not quite the ideal state of affairs for entrepreneurs, says Marx. First, the application of antiquated laws to technologies that defy legal boundaries could "frustrate a healthy, growing industry." And, Marx says, managers unable to figure out their firm' rights and liabilities may neglect market opportunities.

To date, however, it does not appear that legal uncertainty has caused technology to stagnate. And though there is a consensus that necessary legislative action lags technology by at least five years—it was not until 1984 that Congress amended copyright laws to extend protection to software—many regard the slow pace of lawmaking as good for society. "The law acts as a natural brake on technology, which is the way it should be," argues Randy Lowe, a telecommunications attorney with Surrey & Morse in Washington. "The alternative would be to have technology out of control."

Nevertheless, Marx says, it is clear that technology pioneers in the next century will find themselves strapped by a 19th century legal system, unless adjustments are made.

Promising technologies likely to wreak havoc with the law include artificial intelligence. Initially, AI will take the form of expert systems that will

raise questions primarily in the liability area. The medical program that mistakenly prescribed a wrong drug: Did it commit a tort? asks Edwina Dissand, a computer scientist. Dissand, who last year began lecturing at Harvard law school on AI and legal reasoning, believes existing product liability law will be able to tease out the answer.

Eventually, the whole AI medical products field may be regulated. The Food and Drug Administration is studying medical expert systems to determine whether they qualify as medical instruments subject to FDA control. Similarly, the Securities and Exchange Commission is trying to determine how SEC rules apply to software that uses AI to recommend stock purchases.

Things will really get hot when AI reaches its ultimate potential of yielding systems that think autonomously, learn from mistakes and conceive new ideas. If a system can act like a human, should it have some legal rights and responsibilities? Or, what if an AI program in the hands of a human user composes a piece of music, a work of art? Who will own the creation? Is it eligible for copyright protection? This may sound like legal science fiction, but unless the courts and legislators supply guidance, firms that could be making thinking computers might shy away.

The development of space technology to the point where manufacturing in orbit is now feasible has also generated legal questions in need of answers. For instance, what are the proprietary rights of companies that use such government resources as the space shuttle? That has not been addressed so far, notes Christopher B. Roberts, an attorney with the Center for Space Policy, Inc., Cambridge, Mass. The National Aeronautics and Space Administration "is really between a rock and a hard place, because it wants to encourage space commercialization on one hand but has an obligation to serve the public on the other," he says.

Roberts says it is unclear at best whether the Freedom of Information Act, which opens much government-supported research to public inspection, could be used to get access to corporate research data obtained on the shuttle. "Without exclusive rights to the fruits of its labor, no company is going to make a long-term commitment to space research," he adds.

An even broader question is which country's law is going to govern space commerce, says Dula, the Houston lawyer. Suppose a Japanese researcher achieves a major breakthrough on a U.S. space vessel. Which country owns the patent rights? Existing United Nations treaties provide little help. Moreover, the 1967 United Nations Outer-space Treaty holds that no country or company can reap the rewards of space unless they are shared on a globally equitable basis, Dula says.

Back on earth, lawyers say, a number of issues immediately bear on U.S. competitiveness in high tech markets. High on everyone's list is strengthening patent laws to protect processes as well as products. Struggling biotechnology firms have no legal recourse if foreign competitors use processes the firms develop, make products with them and sell the products in the United States.

Copyright law is also in need of fixing, experts say. Several years ago, the question was whether software could be copyrighted. Congress said yes, but then technology took another jump, says Dennis Deutsch, an Englewood, N.J., legal consultant to computer firms. "Now we have software that is hard-wired into computer chips, and there is no neat legal category in which to place it."

Also falling into the gray area are electronic databases. Though database publishers can register for copyright protection, the courts have yet to decide whether a customer or competitor can legally reproduce and sell data that a business develops. Additionally, experts point to the nonexistence of law pertaining to privacy of digitally transmitted voice and data communications.

With every twist and turn in technology, the law will be required to respond. That spells opportunities for lawyers to explore the ramifications of what the legislatures and judiciary do. But, the experts caution, do not expect legal developments to keep pace with technology. High tech firms and users should get used to making decisions shrouded in legal uncertainty. ■

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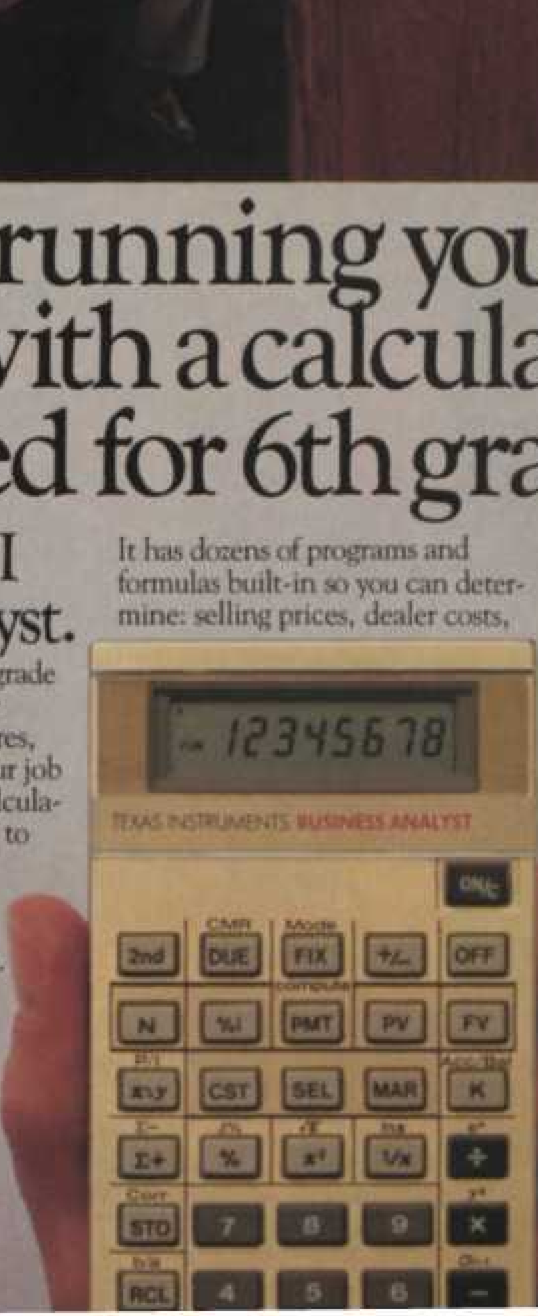

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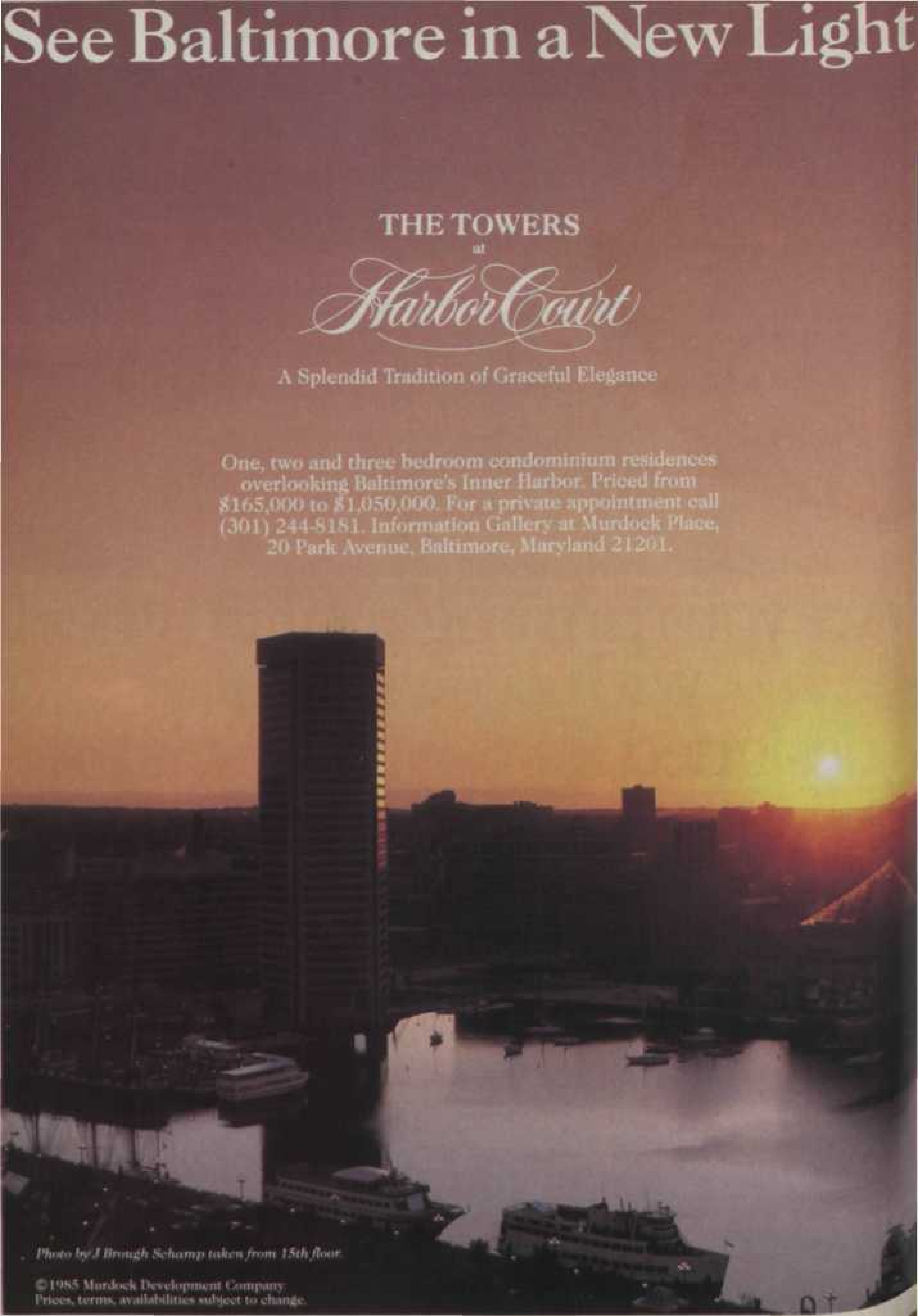
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PEOPLE

Making It

Puppets Promote Understanding

Kids on the Block founder Barbara Aiello helps children understand the special qualities of handicapped people. Using a puppet wearing hearing aids (below), she demonstrates with a cookie that hearing impaired youngsters can talk and eat at the same time.

PHOTOS: T. MICHAEL KEZA

When she made a promise to an unhappy fifth-grader nine years ago, Barbara Aiello did not know she was laying the groundwork for a business that today brings in more than $650,000, employs 20 people and offers moral support for handicapped youngsters.

Aiello was a special education teacher in Washington, and the fifth-grader was Anthony, a boy with cerebral palsy. He was among the first students in Aiello's class to be "mainstreamed" under PL 94-142, the federal law requiring schools to integrate handicapped children into regular classrooms instead of isolating them from their peers. But after two weeks in the mainstream, Anthony begged to return to Aiello's class. "I love you. I love my old room," he told her.

It was flattering, recalls Aiello, 38, but she knew her duty was to prepare Anthony for the real world rather than let him retreat from it. She also realized that the source of his frustration was not lack of ability—he was a bright student. The problem was his new classmates' inability to accept him. "I told him I would try to do something to make them more sensitive," she says. Anthony agreed to go back to the regular class after she had done so.

Aiello created a life-size puppet in a wheelchair, using plumber's piping, garden hose and clothes bought in a secondhand store. She named the puppet Mark Riley and, like the child who inspired him, Mark had cerebral palsy. She took the puppet into Anthony's classroom, where children began to ask him all the questions they were afraid to ask the real child: "Why are you in a wheelchair?" "How come you talk so funny?"

Next came puppets portraying a deaf child, a retarded child and a blind child. There were presentations at summer camps around Washington and even an invitation to appear before the Joint Senate-House Subcommittee on the Handicapped, co-chaired by Sen. Robert T. Stafford (R-Vt.).

Aiello brought 50 Washington schoolchildren with her to the hearing room and staged a performance. She wanted to impress on the subcommittee the need to prepare nondisabled children to accept the handicapped youngsters who would be coming into regular classes under the new law.

"You ought to consider marketing the puppets," Stafford suggested at lunch not long after. There were people all over the world who would love to see her perform, he said, but that was physically impossible. And, he asked, would it not be better for the puppets to be part of a community—a grass-roots effort to change attitudes—rather than come in and leave?

For Aiello, Stafford's suggestion was the "germ of the idea" that led to Kids on the Block, a company that manufactures and sells by direct mail more than 1,000 puppets a year, as well as scripts, props and training programs. Customers include teachers, hospital volunteers, women's groups, and parents of the handicapped throughout the United States and in 11 other countries.

The family of puppets has grown to 31 and includes not only characters with physical handicaps but also characters with social handicaps—teen-age mothers, for example.

Aiello has been on a nationwide tour under contract with Encyclopaedia Britannica to perform in shopping malls. And Kids on the Block, located in Alexandria, Va., has signed contracts with organizations to research and design puppets portraying specific disabilities—such as a character with asthma for the American Lung Association of Northern Ohio.

Kids on the Block has perhaps had more than its share of unusual problems. Before Aiello decided to manufacture the puppets herself, she says, one supplier—angry because she would not take him on as a business partner—held more than 200 puppets hostage in a locked warehouse, delaying deliveries to some customers as much as a year. Only a good lawyer and paying what Aiello calls "an exorbitant price" enabled her to free her inventory.

Her company's growing pains have taught the teacher. For example, Aiello would like to create a puppet that is both deaf and blind. But it is a disability that does not occur often enough to warrant the investment. "Five years ago," she says, "I would have said, 'I'm going to do it,' because it means something to me."

But now, she continues, "I've learned that if I'm going to sell something, I have to meet the public's needs. It cannot always be my way. I'm learning to look at the market and to compromise. That has been good for me."

—*Sharon Nelton*

How entrepreneurs are seeking and finding success—in puppets and player pianos, in medical devices and multilingual computers.

Surgery For A Health Care Firm

Patient Technology President Irwin Selinger demonstrates how MedTake 2000 equipment saves time for a Palisades (N.J.) General Hospital nurse as she takes a patient's vital statistics.

PHOTO: RANDA BISHOP

Medical sundries have given Irwin Selinger's company a healthy bottom line, but only after he performed some major corporate surgery. His Patient Technology, Inc., of Hauppage, N.Y., a leading supplier of crutch tips, eye charts, jars for cotton balls and about 8,000 other items, grew by acquisition—and one amputation.

Selinger, PTI's president and chief executive officer, could make a nice living off sundries sales to the firm's 10,000 hospital, clinic, nursing home and related accounts. But he has bigger ideas. Cost containment is essential for health care providers, and Selinger wants to sell high tech products with penny-pinching appeal. Noting that there are now strict controls on Medicare payments, he says: "The government's not paying the bills any more. Whoever reduces hospital costs will survive."

The low tech sundries line provides cash so PTI can pursue more exotic projects. Last July, after three years and \$3.5 million of development, the firm unveiled MedTake 2000, a bedside terminal for recording patient data such as blood pressure. The machine is designed to cut nurses' paper work, thus raising productivity.

Selinger is an old hand at medical entrepreneurship. He started Surgicot, Inc., in 1968 to make devices that would measure sterilization levels in packages. "It was the old dream of building a company on \$3,000 in a garage," he says. That product clicked, and Selinger realized his dream.

He built the company over the course of 10 years, making three acquisitions, and in 1978 sold out to Squibb Corporation for \$28 million in stock. He remained at Surgicot, but chafed under corporate controls.

A year later, Selinger and Squibb parted, amicably. But Selinger was at loose ends. "I was an entrepreneur without a company to run. It was a rude awakening," he says.

From his Squibb days he knew about four Long Island inventors with an electronic device called SURVALENT, which measured body temperatures. He bought the invention for \$550,000 and a 38 percent share of his new company, PTI. Health care providers snapped up 270,000 of the devices the first year.

Selinger wanted PTI to grow fast. From March, 1983, to October, 1985, the firm made seven acquisitions. It also went public in late 1983. Even as sales rose, however, some bad buys clipped earnings. In fiscal 1984, PTI earned \$1.4 million, not much over the \$1.1 million of the year before, despite a 242 percent revenue increase.

"We bought companies too fast," Selinger says. In particular, he cites Newton Pharmaceuticals, a generic drug maker acquired in May, 1984.

The story gets worse. Selinger expects 1985 figures to show a loss of \$3 million on sales of \$25 million, stemming from the sale of Newton for \$2.5 million "at a considerable loss" and from a corporate restructuring.

Having been burned enough, PTI employed exquisite caution in the acquisition last October of Medisco Federal, Inc., a sundries manufacturer. An initial \$5.1 million offer shrank to \$2.2 million. As Selinger explains, "We studied the company inside and out and renegotiated."

Damage control should leave PTI in better shape. Selinger predicts a healthy profit for 1986, when PTI will have two divisions—sundries and medical electronics.

He calls past woes a detour rather than a disaster: "The dream is the same, to make this a major health care company. The route has been altered. We're going to do more planning."

—*Van Wallach*

Play It Again, And Again

Roger Dayton is on a roll, and he is all keyed up about it.

He has turned his one-time hobby into a \$300,000- to \$400,000-a-year specialty shop. Pedals, Pumpers and Rolls

PEOPLE

Making It

Pedals, Pumpers and Rolls owner Roger Dayton (left) turned a youthful interest into a lifetime business. Mother Mary Lee Dayton, daughter Janet Hale (seated), wife Carol and son-in-law Steve Hale help him peddle his wares.

PHOTO: BRIAN HALL

of Elmhurst, Ill., features a zany and colorful assortment of restored and repaired player pianos, nickelodeons and calliopes. A concert grand piano sitting in the shop is one of only a dozen or so player grand pianos in existence.

Dayton, 47, explains that by the 1920s the art of punching out piano rolls was highly refined. A great master would sit at the keyboard and present a virtuoso performance that was converted into hundreds of slot-like holes in a paper piano roll that copied not only the notes but also the keyboard and pedal movements. George Gershwin played "Rhapsody In Blue." Ignace Paderewski performed Liszt's "Hungarian Rhapsody No. 2," and Sergei Rachmaninoff his interpretation of "Maiden's Wish" by Chopin and Liszt.

These are not recordings. Rather, the holes of the roll are mechanically read by the concert grand to reproduce the key and pedal movements of the masters themselves.

When it comes to putting these superb antique machines into smooth working order, Dayton himself is the maestro. His love affair with player pianos began in the fourth grade. By the time he finished high school, he owned a small collection of the antiques, and he had taught himself how to repair and maintain them. His contacts and reputation grew over the years, and in 1971, when his company relocated, he took a deep breath, quit his job as an office administrator for Honeywell and turned his hobby into a full-time business that has come to encompass the entire family.

His wife, Carol, his mother, Mary Lee Dayton, his daughters Janet and Laura, and his son-in-law Steve Hale (Janet's husband), all get their hands dirty working on the assortment of exotic, automatic music-makers that clutter the modest-size showroom and workshop.

"I do the troubleshooting," says Dayton. "The others do more routine work. Anyone who has ever worked for me is trained to do it my way. This is one of those businesses where you cannot make a quick buck. You have to have satisfied customers who will come back to you and help you build a reputation."

Dayton's reputation has grown to worldwide proportions; he counts customers from all over the United States and from as far away as Belgium, Switzerland and New Zealand.

Aficionados travel to Chicago specifically to see the wonders of the Pedals, Pumpers and Rolls showroom. There are a variety of small, upright player pianos, starting at $2,000, and a handful of grand pianos, culminating in the $75,000 concert grand.

And then there is the colorful collection of nickelodeons—forerunners of the jukebox. Most nickelodeons used an automated player piano as a basic instrument and then added a small band of other instruments. Dayton drops a nickel into one for a demonstration. "This one," he says, "has a xylophone, a bass drum, a snare drum, tambourines, cymbals, castanets and a wood block."

All are powered by compressed air, just like the keys of a player piano. The nickelodeon produces a lively rendition of "St. Louis Blues."

At the top of the nickelodeon line is a huge Decap dance organ, built in Belgium around 1927. A colorful monster ablaze with flashing lights, this 14-foot by 8-foot machine has a 92-key organ, a saxophone, two accordions, a xylophone and an assortment of percussion instruments.

The shop also stocks more than 15,000 antique and modern piano rolls and additional thousands of rolls for the nickelodeons.

If that is not enough, Dayton can sell you a machine to create your very own piano rolls.

After all, the do-it-yourself, attention-to-detail approach is the way that Dayton punched out a career for himself.

—*William Hoffer*

Translation By Microchip

Can a fledgling technology firm best IBM and other titans in an emerging arena? Richard Cheng and his Eastern Computers, Inc., show that it can.

Cheng came up with a high tech solution to a thorny problem for English-speaking business people seeking to capitalize on new opportunities for trade between the People's Republic of China and the United States. Not many such business people speak—or have employees who speak—Chinese. Do they have to go to an expensive language school?

The Shanghai-born Cheng, chairman of the computer services department at Old Dominion University in Norfolk,

Business opportunities opening up in China have increased the demand for language services. Richard Cheng, founder of Eastern Computers, Inc., displays a character generator, his invention that makes possible computerized Chinese-English translation.

PHOTO: WILLIAM [illegible]

Va., saw this problem looming more than a decade ago and jumped at the challenge.

He was among the first to see that computers could help in the process of turning English words into their Chinese equivalents. But he knew it would not be easy. Personal experience told him that the character structure in the Chinese "alphabet" was cumbersome even for computers. "The mere fact that there are over 30,000 characters is a big drawback," he says.

Cheng conceived of a "character generator"—a device no larger than a cigarette case. His idea was carried around in his head until 1980, when he finally formed Eastern Computers.

The generator, mounted on a circuit board, is simply plugged into the expansion slot of any one of several common IBM-compatible computers. That allows an American to type English with instantaneous Chinese results. The reverse is also true, and the generator allows the computer to use English words, such as brand names, in a Chinese text when there is no direct translation.

Additionally, the generator gives the typist the choice of using the letters of the Western alphabet or Chinese characters, some of which frequently symbolize whole words. The English phonetic spelling of Chinese words can be typed in and automatically converted to the correct Chinese characters.

A character can be electronically assembled through a special code that corresponds to the series of pen strokes that traditionally make up that symbol. Each key in a 24-element system will draw for the typist the horizontal, vertical and diagonal lines of Chinese characters.

Responding to keystrokes, an electronically triggered code of characters originates from storage within the generator itself. "In this way, letters of the English alphabet are printed into characters," Cheng says, "and we find that after a week any good typist can produce 75 words a minute."

The computerized translation is best applied to business letters, price lists, brochures and other reading matter that does not rely on the use of idioms and subtle nuance. The translation is word for word.

Despite the generator's obvious value to the international business community, Cheng, 50, admits to nearly disastrous marketing and financial planning flaws when Eastern was formed six years ago. Attempts at getting government and university grants failed. Others with cash doubted Cheng's notion that characters might be wired into the circuit board itself.

It took nearly $500,000 in loans, savings and friends' contributions to keep the idea alive during early research and development efforts. Time was quickly running out. Eastern was just ahead of IBM and other rivals when it released its first product two years ago, but it has since held a comfortable lead in sales. "Our business blossomed by word of mouth," Cheng says. It was quickly reported through the industry that "we had a character generator nearly half the size of our closest competitor's," he adds.

Cheng put more money in upgrading the company's technical capabilities than in launching an advertising blitz in specialized trade magazines. Nevertheless he built up a reputation in his field, and it paid off. He beat more than 100 rivals bidding on a multimillion-dollar, three-year United States Information Agency contract that called for designing generators for 16 different languages. Cheng's product now not only "speaks" Chinese—it has mastered 42 other languages as well.

The affable Cheng describes himself as "conservative in finance but technologically unconventional." His firm has 30 technicians and a core group of five people handling sales. Revenues, a scant $147,000 in 1983, soared to $2 million last year and $3 million in 1985.

"We did everything differently from the way we'd have done it if we were a mature company," he says. "For instance, unlike others in aspects of the computer business, we finished our product before marketing it." A big mistake, concedes Cheng, was "thinking that all financing didn't have to be handled early on."

The generator comes at a hefty $700, but price drops are expected soon. Ties with the Saudis provide Middle East contracts, but Cheng feels that it is in East Asia that Eastern's future really lies. The firm has been selling thousands of generators to Chinese computer factories, which are building hardware for the Chinese word processing market. Eventually, Cheng plans to do away with keyboards altogether and have the computer do character generation by listening to speech.

"Even a small businessman like myself can see how translation is essential for Pacific trade," he says.

—Julian M. Weiss

PERSONAL

It's Your Money

Watching price-earnings ratios is a prime Wall Street way of telling whether stocks are cheap.

By Ray Brady

You often hear comments like this on Wall Street these days: "If corporate earnings go up 10 percent in 1986 and another 10 in 1987, and you put a 14 multiplier on—then you would have the Dow Jones Industrial Average at 2,000."

Mention of the multiplier may follow mention of earnings, but it could easily come first. The huge rise in stock prices through much of the latter half of 1985 saw no corresponding increase in corporate profits. What did increase was the multiplier.

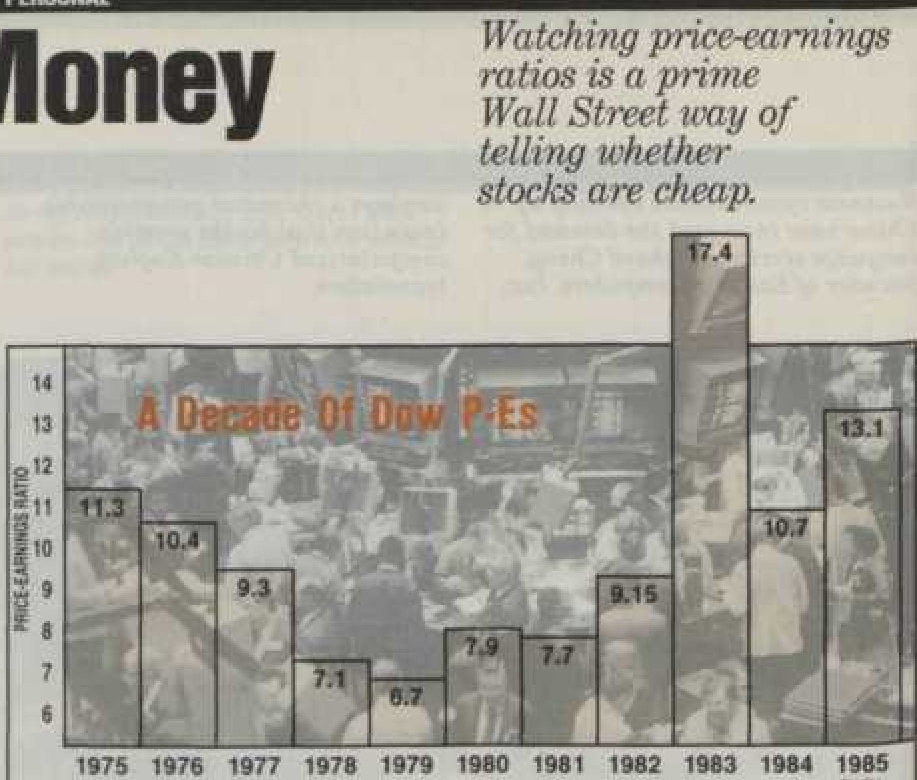
A perception that the multiplier is changing explains a statement like this from Ralph Acampora, who heads technical research at the Wall Street investment house of Kidder Peabody: "We could well see the Dow hitting 2,500 by the late 1980s."

The multiplier is also known as the price-earnings ratio, and it is basically very simple to explain: The P-E, as it is most often called, is simply the price of a stock divided by its earnings per share.

If a stock is selling at $10 a share, and the company is earning $1 a share, then the P-E is 10; the stock is selling at 10 times earnings.

Price-earnings ratio is a prime Wall Street way of telling whether a stock is cheap or expensive. Obviously, the lower the ratio, the less the investor is paying for each dollar of profit that stands behind that stock. If the outlook for two companies in the same business is roughly the same, analysts say, the stock with the lower P-E is the one most likely to rise in price. Analysts often will pore over computer printouts of corporate earnings, looking for the company whose P-Es may have fallen behind those of other companies in the same industry. Provided the laggard has not run into major problems, that may be the one stock in a group to buy.

Big money can be made by watching price-earnings ratios. If a company is in the financial doghouse for one reason or another, its stock will sell at a very low ratio to its profits; Wall Street simply does not think that the outlook for the firm justifies putting a big multiplier on the stock. But if the company is



SOURCE: BARRON'S BUSINESS AND FINANCIAL WEEKLY

turning around and investors have not yet perceived the change and corrected the low price-earnings ratio, "that's where you make your really big bucks on Wall Street," says one veteran money manager, who wishes anonymity. "You have to catch it before everybody else does."

In a market that is already up more than 90 percent since the big bull market began in late 1982, where do you find "cheap" stocks? Thomas Stiles, research director at E.F. Hutton Group, Inc., the big Manhattan brokerage firm, has been picking over his lists. He believes the major moves in the future will come from small companies that grow rapidly—and whose P-Es will change with the companies' fortunes.

Among Stiles' candidates: Prime Motor Inns, Inc.; Price Company, a wholesale warehouse firm; and LyphoMed, Inc., a maker of medical supplies.

A P-E can be used to prevent losses as well as make profits. It can be an early warning signal for the cautious to get out of a stock—or out of the market entirely.

The Dow Jones Industrial Average itself has a P-E, of the 30 stocks that make up the average.

The big run-up in stock prices has sent the Dow's P-E soaring. In fact, near the end of last year, the Dow multiplier was standing at 16.3 times earnings. Too high? Nobody really knows. What bothers some Wall Street veterans, however, is that at that level the Dow was near the 17.7 times earnings of the heady, go-go market of the late 1960s. That period of investment exuberance was followed by a crash in prices that left Wall Street a shambles for years—and caused many private investors to swear off stocks.

If the Dow's price-earnings ratio is up, so is that of many individual stocks. "You can't find cheap stocks today," says Michael Price, of Mutual Shares, the Manhattan-based mutual fund.

So bearish investors, looking at those high multipliers, are twisting around an old boxing adage and saying: "The higher they are, the harder they fall."

The pessimists may be all wrong—and the market may go on its merry way for a long time. Still, it may be rewarding to look at what happens when a stock's price-earnings ratio drops, or "corrects," as they say in brokerage house trading rooms.

One company was red hot on Wall Street for years. It was on the leading edge of technology, making telecommunications equipment, a field that encompasses such exotic devices as TV scramblers, unscramblers and earth stations.

Then the company announced a drop in quarterly earnings and said that the following quarter would not be especially profitable, either. In a single day, Wall Street slashed the company's price-earnings ratio from a lofty 18 to 14.

That cut 3½ points off a stock selling around $16 a share—a one-day drop of almost 20 percent.

Moral: Whether the stock market is going up or down, whether you are buying or selling, watch that price-earnings ratio. ■

Ray Brady is the business correspondent for CBS News.

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THE NATION'S BUSINESS

Where I Stand

Results of this monthly poll on important public policy issues are forwarded to top government officials in the White House and Congress.

1. Put Limits On Awards For Pain And Suffering?

Juries in personal injury cases frequently make large money awards for intangible injuries like "mental distress" or "pain and suffering." A California law, recently upheld by the Supreme Court, limits such awards in medical malpractice cases to $250,000. It has been proposed that other states adopt a similar approach extending the principle to all tort cases. Opponents say capping awards destroys their punitive effect. Proponents believe fair compensation should be proportional to economic loss. Should limits be put on awards for noneconomic losses?

2. Cap Lawyers' Contingency Fees?

Delaware limits the contingency fees lawyers may receive in medical malpractice cases to 35 percent of the first $100,000 of damages, 25 percent of the next $100,000 and 10 percent of the balance. Some people would like to see contingency fees limited or abolished everywhere in all types of damage cases. Defenders say contingency fees guarantee that poor people have the same access to the courts as the rich. Proponents of change argue that such fees have burdened the court system with unnecessary cases and unnecessarily large awards. Should the contingency fee system be changed?

3. Set Time Limit On Product Liability?

The costs of product liability litigation are making it harder for some manufacturers to compete with companies in Europe and Japan, where liability damage suits are fewer and awards are much smaller. In this country, some manufacturers have been sued over products made 30, 40 or more years previously. One improvement in the U.S. system, say proponents of change, would be a limit on how long a manufacturer can be held liable for a defective product. Should there be a statute of limitations on product liability?

Verdicts On Affirmative Action, Trade Barriers, Civil Justice Reform

Here is how readers responded to the questions in the December issue's Where I Stand poll.

	Yes	No	Undecided
Should affirmative action requirements for federal contractors be abolished?	84%	11%	5%
Should there be open trade between the United States and Canada?	80%	11%	9%
Should the civil justice system be reformed in a way that would help make business risks more insurable?	90%	5%	5%

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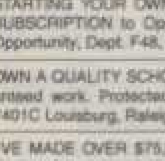

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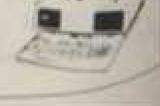

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This NATION'S BUSINESS feature advises readers how they can make their views known on important pending legislation. Correspondence to members of Congress should be sent either to U.S. Senate, Washington, D.C. 20510 or to U.S. House of Representatives, Washington, D.C. 20515.

ISSUE	BUSINESS IMPACT	BUSINESS MESSAGE
Tax Reform/ Simplification	Tax reform proposals include repeal of the investment tax credit, substantial reduction of depreciation allowances and significant increases in business taxes. Tax increases, by raising the after-tax cost of work, saving and investment, would harm economic growth and the competitive position of the United States in world markets.	Members of the House and Senate: Tax reform should stimulate capital formation, encourage technological advancement, enhance international competitiveness and help create jobs. Legislation developed in the House does not meet these goals. Tax reform should be set aside, and efforts should be concentrated on reducing the budget.
Budget	The strength and duration of economic recovery will be affected by congressional actions on the budget and appropriations for fiscal '87. Interest, inflation and unemployment rates could all increase.	Members of the House and Senate: Lower the level of federal spending to comply with the budget deficit targets recently adopted by Congress. This legislation, sponsored by Sens. Phil Gramm (R-Tex.), Warren Rudman (R-N.H.), and Ernest Hollings (D-S.C.), requires that the federal deficit be zero by fiscal year 1991.
Comparable Worth	The comparable worth concept, assigning job value on a point system based on subjective evaluation, could be costly to businesses. Initially intended for the federal work force, this concept could be expanded to the private sector. Employers would be exposed to liability solely because they pay market-determined wages.	Members of the House and Senate: Oppose the superficially appealing but fundamentally flawed concept of comparable worth. Implementation of this unsound and market-disruptive concept would be a serious error.
Immigration	Immigration reform could prove burdensome to employers if recordkeeping is mandatory, criminal penalties are imposed on employers who hire illegal aliens, and a new category of discrimination is created based on alien status.	Members of the House and Senate: In reform legislation, recordkeeping requirements should be optional, criminal sanctions should be eliminated, and new legal rights for aliens should not be created.
Product Liability	Businesses are faced with heavy insurance and litigation costs because of the sharp increase in product liability suits. Passage of a uniform law dealing with such cases could reduce the escalating cost of litigation. Businesses would then deal with a single standard rather than operate under the many individual state laws that now govern product liability cases.	Members of the House and Senate: Support legislation that would establish a uniform product liability law for state and federal courts. Businesses and consumers need congressional clarification of product liability law. Presently, inconsistent state product liability laws are causing excessive insurance premiums and unavailability of liability insurance.
Superfund	Businesses will be affected by the amount authorized and the taxing authority used in the renewal of Superfund, the hazardous waste cleanup program. The House and Senate have approved separate bills, each greatly increasing the tax and the taxing authority.	Members of the House and Senate: Urge the conference committee on Superfund to approve reasonable funding levels and to authorize use of general revenues, the most equitable source of funding.

LESSONS OF LEADERSHIP

An Appetite For More Than Pizza

Tom Monaghan has made Domino's the fastest growing franchise by keeping it simple and rewarding hard work.

By Susan Ager

Bob Popiolek remembers how Tom Monaghan used to drag himself home from his pizza shop about 3 a.m., carrying the night's receipts in a brown paper bag. He would finally get around to counting the cash the next afternoon at the kitchen table in his trailer home.

"Funny, but it seemed like a burden to him, like the fun was in the work, not the money," says Popiolek, who lived in the same Ypsilanti, Mich., trailer park and swapped friendly wagers with Monaghan about who would build the tallest building, make the most money, win the most fame.

They have not seen each other in almost 20 years, but Popiolek is willing to concede that Thomas S. Monaghan, 48, founder of Domino's Pizza, the world's largest privately held restaurant chain, won each bet.

From near-bankruptcy in 1970, the chain fought its way back to solvency—and more. Revenues were $98 million in 1980. The slogan at Domino's in the past year was "One-point-five in '85." That is $1.5 billion in sales and franchise royalties, more than double the 1984 figure. The company's 1985 report, due out in March, will reveal that Domino's met its goal. (Although closely held, Domino's is very public about its finances, in a "we-have-nothing-to-hide" spirit that Monaghan promotes. It publishes annual reports, distributed to each employee, corporate friends and bankers. The 1984 report came in a polished walnut box that also contained real dominoes.)

In 1984 Monaghan had an estimated worth of $200 million; in 1985 he was worth $50 million more. Domino's is expanding at the rate of 21 stores each week. The days of cash in brown paper bags are over, as evidenced by these Monaghan milestones:

- Having aspired to be a Detroit Tiger shortstop as a kid, he instead bought the team in October, 1983, for $53 million after a 92-70 season in which it placed second in the American League East. The team won the World Series in 1984 and netted just under $4 million, a probable season record for major league baseball teams. National awareness of the company, say Domino's executives, has since grown from 41 percent to 78 percent, in part because of the Tigers but also because of network TV advertising, begun late in 1984.

Susan Ager is a Detroit Free Press staff writer.

Domino's founder Tom Monaghan has kept the fast delivery and limited choices that enabled him to build the chain from one shop in Ypsilanti, Mich.

PHOTO: ANDREW SACKS

- In December, in time for the company's 25th anniversary gala, the first phase of a $300 million office complex called Domino's Farms opened in Ann Arbor, Mich., Monaghan's birthplace. The complex is intended as a tribute to architect Frank Lloyd Wright, who tops Monaghan's long list of heroes. It will include a 30-story tower based on Wright's unbuilt Golden Beacon design. "It's going to be a loser, economically," Monaghan admits, "but I won't compromise on the design. No public company would ever build anything like this. My theory is that because no one else will do it, it's going to be unique, and it's going to endure."

The complex will eventually house not only Domino's world headquarters, but also a sports medicine center, an employee fitness center, a man-made lake, jogging trails (ski trails in winter) and a 150-acre working farm that will include a pumpkin patch open to locals each fall. A team of Polish monks is being recruited to run the farm. Mona-

LESSONS OF LEADERSHIP

An Appetite For More Than Pizza

Monaghan spends his money with glee. He bought the Detroit Tigers in 1984, and they went on to become world champions. Always a sucker for luxury, he paid a million dollars for this Dusenberg phaeton (photographed in Tiger Stadium).

PHOTO: DOMINO'S PIZZA, INC.

ghan would also like to open a small orphanage on the property, staffed by senior citizens.

Devoted to home and family, Monaghan is expanding his own house, more than tripling its size at an expected cost of $2 million. All remodeling will be in Frank Lloyd Wright style, including a balcony cantilevered over a wooded gulch. The enlarged home, in an affluent but unostentatious neighborhood near Ann Arbor, will have a seven-car garage, an indoor pool, a Nautilus gym as big as a two-car garage and a copper roof over it all. Because Monaghan's wife, Marjorie, forbids him to borrow money for the project, it is being paid for in cash. She is a bashful, unassuming woman who still does the company payroll (her pay: $15,000 a year), does all the family's cooking and refuses to buy a fur despite urgings from her friends. Neither will she allow reporters to interview their four daughters, aged 14 through 22, or come to their home.

Tom Monaghan grew up a poor boy, son of a truck driver and an aspiring nurse. After his father died when he was 4, Monaghan's mother, Anna, went back to school for her degree and worked as a nurse, placing Tom and his younger brother, Jim, in a Catholic home for boys and later in various foster homes and work farms near Jackson, Mich. At one point, Tom was expelled from a high school seminary for mischief.

Tom graduated (from a different high school) at the bottom of his class, then joined the Marines, saving his money to go to college. But he was bilked by a con man promising profits on nonexistent oil wells. Penniless but undaunted, he enrolled twice at the University of Michigan, hoping to study architecture, but dropped out each time after three weeks. Once, he didn't have the money for books; once, he didn't have the time (working bit jobs) to study. Monaghan never went back to school.

Brother Jim borrowed $900 from a credit union in 1960, and the pair opened a pizzeria near Eastern Michigan University in Ypsilanti. Jim sold out a few months later in exchange for Tom's 1959 Volkswagen Beetle. He now works at a machine shop in Ypsilanti.

Monaghan built the business in ignorance, learning from customers that 30 minutes was the longest they wanted to wait for a pizza. He began to guarantee prompt delivery, at first offering pizzas in "a half hour or a half dollar off." (Today, if it is late, the pizza is free, or $3 off, depending on the location.)

Sometimes, students at EMU would take advantage of him. A whole dorm would order pizzas at the same time. Or, while the driver was in a dorm making a delivery, students would steal the remaining pizzas from the delivery car.

Monaghan, who learned how to fight tough in the Marine Corps, hid in the back of the car and ambushed would-be thieves with "a mallet you run through a meat grinder, although on occasions I'd use Coke bottles. Most of the time I'd just use my bare hands. It made me so mad. People were threatening my livelihood, and it was a campus sport."

Friends and competitors of Tom Monaghan agree his success is attributable to a few key traits:

• He is undeterred by failure. In 1970, after trying to expand too fast and go public, he was $1.5 million in debt. Refusing to file for bankruptcy, he instead fired everyone except his wife and his bookkeeper. He paid off the Internal Revenue Service and about 1,500 creditors, writing checks stamped with a personally designed logo of a man wearing only a rain barrel.

• He has kept his concept simple. For most of its 25 years, Domino's menu has included only pizza (two or three sizes, 11 toppings) and cola. No sit-down, only takeout and delivery, guaranteed in 30 minutes or less. Ninety percent of deliveries meet the guarantee, and drivers who make the most deliveries on time win trips to the Indy 500.

• Monaghan rewards his own. His top executives drive $38,000 BMWs or other expensive cars of their choice. The company owns a million-dollar, 64-foot yacht called the *Tigress II*, on which particularly successful store managers spend weekend cruises. In 1984, 68 store managers who increased their sales 50 percent won $3,800 trips for two to Hawaii. On Monaghan's wrist is a $12,000 Patek Philippe gold watch, Swiss-made, which he will give to any store manager whose weekly sales top the company record (the current record, $62,087, is held by a store in Myrtle Beach, S.C.). He has given away half a dozen.

Last fall, Monaghan bought a 280-acre waterfront estate on an island near Michigan's Upper Peninsula for $350,000, to serve as a corporate retreat where key executives and successful store managers go as a reward for work well done. Once, he removed his Hermes silk tie and gave it to a particularly successful manager. That gesture has been institutionalized, and hundreds of $70 ties are bestowed each year.

• And he tries to be good. Last spring he hired a corporate chaplain, a Catholic priest who says mass each morning in a conference room off the Domino's headquarters cafeteria. Monaghan attends daily. When he is on the road, he goes to a local church.

"If not for religion," he says, "I'd be the worst guy that ever lived. Once I realize something is wrong, I'll avoid it. I'll cheat and fight and everything until someone points out to me that it's wrong. There's something in me that says, 'Don't break the rules.' "

Says George Griffith, a close friend and a member of the Ann Arbor country club to which Monaghan belongs: "A number of members look down their noses at him, as if God got things screwed up and gave the money to the wrong person. He does not fit what a big, important person should be. Some consider him to be a guy who just lucked out."

Domino's Farms, the $300 million office complex in Ann Arbor, will include a 150-acre working farm run by a team of Polish monks. *A Monaghan hero is Frank Lloyd Wright. Domino's Farms will include a 30-story tower based on Wright's unbuilt Golden Beacon design. To Monaghan's left is his wife, Marjorie, who still does the company payroll—at a salary of $15,000 a year.*

PHOTO: DOMINO'S PIZZA, INC

PHOTO: ANDREW SACKS

Monaghan does not flaunt his money, but he spends it with glee. He wears $600 shoes and $42 cashmere socks from Scotland. He also lavishes gifts on friends. When he sent Tiger General Manager Jim Campbell a dozen pairs of cashmere socks for his birthday, Campbell figured he would never use so many. So he gave away most of them before Monaghan revealed how much they cost.

When former Tiger owner John Fetzer turned 84 last March 25—the same day Monaghan turned 48—Monaghan gave him a $1,200 cashmere cardigan sweater. Fetzer, who cares for Monaghan almost as a father but finds his financial habits bewildering, gave him a card.

Always a sucker for luxury, Monaghan last fall paid a million dollars for a 1934 beige Dusenberg phaeton, proclaiming it the most money ever spent for a classic car. Two weeks later, he spent another million for a black 1929 Dusenberg roadster.

Sometimes he feels uneasy about his wealth. "I've heard all my life the saying that it's harder for a rich man to get to heaven than to put a camel through the eye of a needle. I never liked that one, because I always wanted to be rich. I always wanted the best.

"But the nuns, when you asked them about the saying, always said it means you ought to be poor in spirit. You ought to be humble. You don't want to worship wealth. You just want to do good things with it. No bad things.

"Maybe I don't do all the things I should with my money, but I hope I don't do any bad things."

He has given $30,000 to the University of Michigan's School of Architecture to add to an endowed chair now occupied by Domino's Farms architect Gunnar Birkerts. He also set up a foundation that last year awarded about $100,000. That raises eyebrows among some who know that, several years ago, he gave $50,000 to an overweight, out-of-shape vice president who met Monaghan's challenge to run a marathon by the end of that year.

Monaghan is eccentric, appealingly maverick, and so is his company. Last summer there were animals almost every day in the lobby of Domino's headquarters—some days a rooster, other days a baby goat or a few baby rabbits; occasionally a whole team of pygmy horses would be outside the front door. Monaghan felt the animals would give employees a lift and keep Domino's Farms, then under construction, on their minds.

Domino's has franchised two thirds of its more than 2,800 outlets—it is the fastest growing franchise in the nation, although it is still smaller than rival Pizza Hut, which has more than 4,000 units and had 1984 sales of $1.9 billion. Of Domino's franchisees, 98 percent are former employees. Stores have opened in Japan, Australia, West Germany and Britain, as well as Canada.

The growth comes because people want to share in Monaghan's success. "He wants you to succeed so much that you want him to succeed, too. He believes there's enough room for everyone in the high-priced seats," says Becky Belknap, who, with her husband, Gene, went to work for Monaghan in the mid-'60s. Now, they own seven Domino's stores in Ann Arbor.

Aside from tangible incentives, Monaghan believes in teamwork and will try anything to promote it. Two years ago, he bought a sailboat and took his executives on Michigan's annual Port Huron-to-Mackinac race. "He read somewhere that the best way to get men to cooperate and work together was in war," recalls Bill Martin, an Ann Arbor developer who helped Monaghan find the boat, "and the next best was as a crew in a major sailboat race."

Nothing is done the usual way at Domino's.

"A lot of companies would say we do things wrong, because instead of Tom telling people it isn't going to work, he lets them try it, then *they* find out," says Monaghan aide Helen McNulty. "Tom always says, 'If you're not making mistakes, you're not working.' "

He keeps in his office files a folder labeled "Dream File," into which he slips clippings about things he would like to own, places he would like to see, people he would like to meet.

"I have a big appetite for so many things," he says.

Domino's, as a corporation, also continues to dream. BakeUps, a breakfast pizza of cheese with toppings like ham and bacon, is being test-marketed. A low-cal pizza with one third the calories is in the works. Prototype delivery cars of the future have been built, low to the ground, resembling jets without wings. They get 85 miles per gallon. A dial-a-pizza plan under development would allow customers to punch in their exact orders on a push-button phone.

Within five years, Monaghan wants Domino's to have 10,000 outlets, generating an average of $1 million annually each, for total yearly revenues of $10 billion. Monaghan says he never has enough money to do all he wants to do. But he has a personal five-year plan based on what he expects to have, which is more money.

"I'm working my way down that field toward a touchdown." What's the touchdown? "It's an endless field!" he says, his eyes wide with the exciting possibilities. ■

COMMENTARY

Editorials

Restoring balance to the liability system and to federal budgets.

Civil Justice Reform: The Way Out Of The Liability Crisis

A legal system that works hardship on those who have done no wrong is obviously in need of correction. That is why individual businesses and the organizations that represent them are pressing for major reforms in the civil justice system based on tort law.

Traditionally, an individual who suffered from the actions of another could ask the civil courts to order the person at fault to pay money damages and/or stop the actions.

But something different has been happening in recent years. Lawsuits seeking money damages have been initiated more on the basis of the defendant's ability to pay than on the basis of responsibility for causing an injury.

This month's cover story, beginning on page 22, documents what is happening in the liability insurance field. Companies with little or no responsibility for injuries, rather than the parties directly responsible, are being subjected to costly lawsuits. Those companies and their insurers are, in too many cases, being ordered to pay enormous damage awards.

ILLUSTRATION: MICHAEL BIERUT

The result has been major increases in premiums for virtually all types of liability insurance, curtailment of coverage and, in some cases, inability of businesses to obtain liability insurance at any price.

As one business leader quoted in the article puts it, "Businesses in every region of the country have experienced extreme hardship." And, he adds, "small businesses are bearing the brunt of the present crisis" in liability insurance.

Though other factors, such as changes in the investment climate, have affected insurance company earnings, the explosive increase in the number of massive damage awards remains the major factor in the liability crisis. Courts and juries are holding companies responsible for actions far beyond the scope of insurance coverage and, indeed, of the principle of tort law.

Richard K. Willard, an assistant U.S. attorney general, asks a question being widely echoed these days by business people hard put to find liability coverage at reasonable rates: "How did we get in this mess?" He also offers this explanation: "Increasingly, tort law punishes those who have done nothing wrong, simply because they often have the resources to compensate the unfortunate."

The answer, he says, is "a return to a view of tort law premised on a concept of fault."

Businesses seeking insurance at affordable rates, and the insurance industry itself, support that view strongly and are pressing for relevant reforms to the civil justice system.

Realization of those goals would bring about a liability system that works much more effectively on behalf of companies that need liability coverage and companies that provide it.

The Right Strategy For Winning This Budget-Cutting Battle

President Reagan faces one of the most difficult domestic challenges of his tenure as chief executive in the fiscal 1987 budget he sends to Congress early this month.

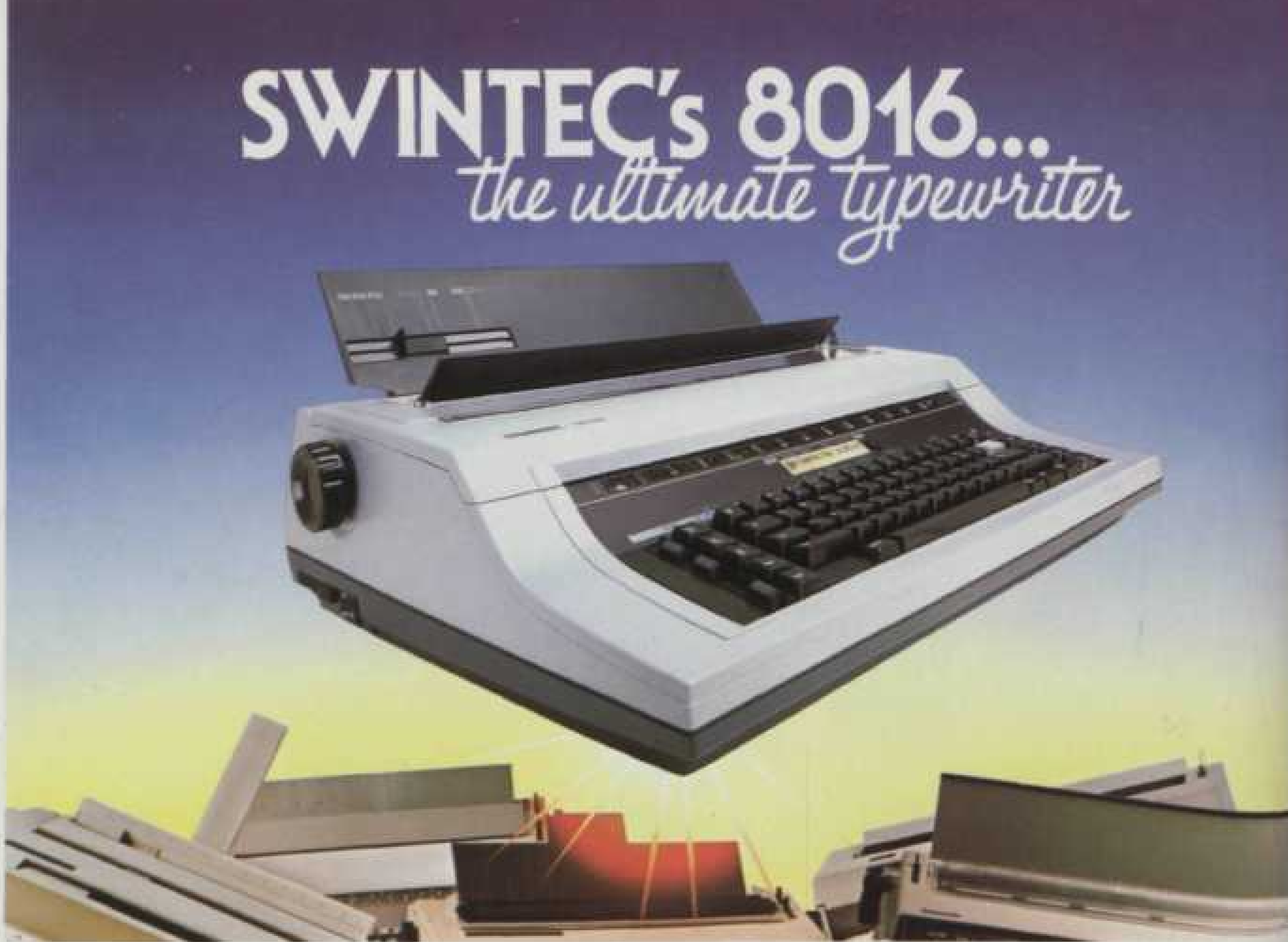
The budget must offer enough spending cuts to meet the constraints of the newly enacted Gramm-Rudman-Hollings law, which was enacted late last year with strong support from business. The law to impose long-needed fiscal discipline on Congress requires elimination of the federal deficit over the next five years.

But the proposals to curtail or eliminate federal programs must be presented in a manner that is both fiscally and politically realistic.

Suggesting budget actions with little or no chance of enactment would not meet that test. Congress might refuse to consider seriously, for example, a budget reduction plan that exempted major spending areas, like defense and agriculture. Advocates of programs targeted for cuts would have a ready-made claim of unfairness if the administration approach to eliminating the deficit is not evenhanded.

It would be a major strategic mistake for the White House to send Congress a narrowly focused plan that kept major spending areas out of consideration. That could shift the emphasis of the deficit elimination debate to the one area the administration wants to avoid—tax increases.

The administration will surely be mindful, in its approach to implementing the Gramm-Rudman-Hollings law, of the fact that some members of Congress do not see the law as an ultimate source of fiscal discipline. They see it instead as a way of demonstrating that higher taxes are the only way the federal deficit can be eliminated.



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